

Book III -- ~~Part III~~ Weekly Summary

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TRENDS IN BRIEF

GENERAL

Formation of the UN Commission for Korea is being hampered by the reluctance of certain countries to appoint representatives to the Commission as directed by the General Assembly. Only five of the nine designated countries so far have made their appointments. As for the rest: Canada has made no appointment, although it has indicated it would serve; India has given no indication of its intentions; El Salvador has officially declared it has no one available for the position; and Syria has informally indicated that it refuses to serve on the Commission.

The recent action of the Franco-Italian Mixed Commission in recommending that the two countries establish a customs and economic union and that such a union be considered the basis for a general European union, represents the first significant move--since the formation of the Benelux Union--to integrate the economies of the nations participating in the European recovery program. The Commission's recommendation requires the approval of the French and Italian legislatures before it can be put into effect.

WESTERN EUROPE

A new wave of Communist-instigated strikes is expected to break out in Italy in the near future. The Kremlin may also direct insurrectionary action prior to the spring elections, if the De Gasperi Government demonstrates weakness in dealing with widespread disorders (see page 1).

The Force Ouvriere (FO), which recently broke away from the Communist-dominated CGT, appears to be gaining adherents at such a rate that it may have a membership comparable to the CGT within the next few months. Although the FO faces a difficult task in creating new national trade union machinery without adequate funds, the energetic and militant leaders of local unions (who have received little direct guidance from FO headquarters) are proceeding with basic organization throughout France.

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The British Communists' recent all-out propaganda attack on the UK Government and Labor Party follows the Cominform line. The capabilities of the British Communists, however, to sabotage the UK industrial recovery program are limited. The Communists will probably attempt to create and exploit labor discontent with a view to hampering production; however, Communist penetration of the trade unions is not sufficiently great to be more than a major nuisance problem. The loyalty of British labor to the Labor Government is beyond question, and trade union and Government officials have for some time been actively educating the rank-and-file regarding the nature of Communism and its tactics. Progress in ousting Communists from key union positions is already evident. This trend will probably be accelerated as a result of the open Communist "declaration of war" on Labor Party leadership, particularly if Communist trade union officials overreach themselves in promoting the Cominform line.

Norway's future foreign policy is expected to incline more definitely toward the Western Powers, although the Norwegian Government will proceed cautiously in order to avoid antagonizing left-wing elements. The Norwegian Government appears: (1) to consider that the prospects for economic recovery in Western Europe are good; and (2) since the breakup of the CFM, to recognize that a rapprochement between the East and West is unlikely at present.

EASTERN EUROPE

The actual formation of the long-predicted "free" Greek government is in itself of comparatively minor importance. The real significance of this development will lie in the manner in which it is exploited by the USSR and/or the Satellites. Soviet or Satellite recognition of the Markos regime would undoubtedly be followed by greatly increased aid to the Greek Communists and would therefore give them an immediate military advantage over the US-supported Greek Government; but recognition would also invite serious involvement with the US. Of the Satellites, only Albania (which is not a member of the UN and is not recognized by the US) would have little to lose if faced with US or UN censure or action. In Greece, meanwhile, the guerrillas, supported by artillery, are making a strong effort to clear and consolidate areas adjacent to the Albanian border.

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Concessions obtained by Czechoslovakia in its recent commercial agreement with the USSR indicate that the Kremlin still considers it necessary to exercise some restraint in dealing with the Czechoslovak Government. Czechoslovakia prevailed upon the USSR to accept deliveries comprising 60% consumer goods and 40% capital goods--a far lower percentage of capital goods than the Soviet Union had originally demanded. The USSR may have modified its position in order to give the impression that it has no intention of destroying the Czechoslovak economy (which is geared to the production of large quantities of consumer goods). Under the terms of the agreement, world prices will govern all items of exchange and the Czechoslovaks are granted a particularly favorable price for Soviet grain. Despite these concessions, fulfillment of the agreement will impose a severe strain on the Czechoslovak economy and will curtail Czechoslovak trade with the West.

NEAR EAST-AFRICA

A widening schism among the Zionists in Palestine is indicated by: (1) the recent resignation of Leftist Moshe Sneh from the Executive of the Jewish Agency, on the ground that the Agency is too partial to the US and UK; and (2) the failure of the Jewish Agency to prevent the sailing of the PAN YORK and the PAN CRESCENT from a Balkan Black Sea port, carrying 12,000 illegal immigrants to Palestine. The majority right wing of the Jewish Agency opposes this illegal immigration because it does not wish to antagonize the US and the UK and because it fears that the arrival of such a shipment of Eastern European immigrants--including Soviet agents--will increase the influence of the Leftists in Palestine. The Zionist terrorist organizations (Irgun Zvai Leumi and the Stern Gang) and the left wing of the Jewish Agency appear to be looking more and more to the USSR for support. In permitting the ships to sail, the USSR undoubtedly realized it would thereby embarrass the conservative groups now dominant in the Jewish community.

Neither the Arabs nor the Zionists are likely to be hampered by serious arms supply problems in their Palestine dispute. The armament position of the Arabs has been notably improved by: (1) a \$2,035,000 contract for small arms, ammunition, and other

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materiel just negotiated by Syria with the Skoda works of Czechoslovakia; (2) the UK's decision to complete deliveries under existing arms contracts with Arab states, especially with Iraq; and (3) the reported arrival of Soviet shipments of small arms in Lebanon and Syria. The Zionists, likewise, are believed to have ample stocks of small arms and ammunition in addition to some local arms factories, although so far their efforts to obtain heavy equipment in the US have been unsuccessful.

The recent change in the Iranian Government was the result of domestic pressures and was not influenced by any direct foreign interference. The fall of Qavam, who had acquired political enemies by his long tenure and autocratic methods, was precipitated by his alienation of tribal support. Hakimi's appointment as premier reflects the lack of qualified candidates and the prevailing political confusion rather than any special qualifications on his part. His Cabinet is conservative and rightist, composed of old-line government officials who have served in the past with no great distinction, competence, or forcefulness. Its composition will increase the Shah's influence over the Government and will strengthen his control over the security forces. The Government's foreign policy will be characterized by continued opposition to Soviet pressure, which is expected to increase because of hostility to Hakimi. Hakimi will show less political acumen than his predecessor, and the tenure of his Government will be brief.

WESTERN HEMISPHERE

Panama's Assembly appears to have been motivated primarily by nationalist and domestic political considerations in rejecting unanimously the US defense-sites agreement (see page 3).

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TOP SECRET**PROSPECTS FOR COMMUNIST ACTION IN ITALY**

The Italian Communists are expected to instigate in the near future a new wave of strikes throughout the country. These strikes ostensibly will be aimed to win benefits for the workers similar to those recently granted in Rome and Sicily. If the De Gasperi Government demonstrates weakness in dealing with widespread disorders, the Kremlin may direct insurrectionary action before the national elections in March or April.

The potentialities for effective Communist employment of force to further Soviet objectives in Italy remain undiminished, despite De Gasperi's recent success in putting down the general strike in Rome. Communist capabilities for overt armed action are particularly strong in North Italy, where the Party has a large membership, controls many city councils and labor organizations, and commands a partisan following estimated at 50,000 well-armed and 50,000 partially-armed fighters. The Communists apparently also possess adequate truck transportation in that region. Against this force, the Italian Army and security troops can place only limited strength, inadequate in arms and equipment. Rightist semi-military forces are believed to number only 20,000 at the most, and these are very poorly equipped for combat. Such Rightist forces would be more likely to impede rather than to increase the effectiveness of the Government troops.

If the Italian Communists, with assistance from the Communists of France and/or of Yugoslavia, should seize control of North Italy (as is within their capabilities), the De Gasperi Government would probably require outside aid to regain possession of the area. However, two factors at present apparently militate against an imminent Communist coup: (1) the Communists have not yet succeeded in creating a truly "revolutionary situation"; and (2) they do not appear to have given up hope of winning the next elections. Neither the decision nor the order for insurrectionary action, however, is likely to originate in Italy itself. Such authority obviously rests in the Kremlin which will presumably direct such action as it considers necessary to defeat the European recovery program.

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Meanwhile, in order to weaken De Gasperi's support the Communists can be expected to exploit the dissatisfaction of the South Tyrol People's Party with the Government's draft legislative provisions for Italy's German-speaking population. Although De Gasperi has not yet been directly charged with bad faith in implementing the Austro-Italian agreement of September 1946 (for the local autonomy of the South Tyrol), the issue is one which the Government must handle carefully lest it increase the Communist following in an area where Communist political and military strength already presents a substantial threat. Dissident elements among the South Tyrolese could impede the Government's efforts to regain control of North Italy, in the event of a Communist insurrection.

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TOP SECRET**PANAMA'S REJECTION OF THE DEFENSE-SITES AGREEMENT**

Panama's Assembly appears to have been influenced largely by nationalist motives and domestic political considerations in rejecting unanimously the defense-sites agreement recently negotiated between the Panamanian Government and the US. It is unlikely that Panama's few hundred known Communists or the demonstrations they instigated during the Assembly debates had any significant effect on the outcome.

The vote reflected primarily the desire of the legislators, in an election year, to observe a Panamanian axiom that any elected representative, in order to assure his political survival, must oppose such cooperation with the US as would imply that Panama is a quasi-protectorate of the US; instead he must promote Panamanian sovereignty and independence.

On the other hand Panamanian leaders recognize that because Panama relies heavily on US support and--as the host nation of the Canal--derives many benefits from cooperation and close relations with the US, it can ill-afford to press its nationalistic aspirations to such extremes as to jeopardize these benefits. As a result of this basic conflict, US-Panamanian relations are subject to constant change, depending upon which of the two considerations appears most relevant to the particular decision which Panama is obliged to make.

In rejecting the defense-sites agreement Panama elected to pursue a nationalistic rather than a cooperative course because: (1) it was not convinced that US-Soviet relations had deteriorated to the point where purely defensive considerations required Panama to relinquish control over a portion of its territory for twenty years; (2) Panama's two leading experts on international law, former Foreign Minister Alfaro and Ex-President Harmodio Arias, publicly opposed Panamanian adherence to the agreement which they described as "unreasonable"; (3) the financial loss involved in rejection was not substantial; (4) the forthcoming Presidential elections made it temporarily inadvisable for political leaders to appear cooperative with the US; and (5) an anti-US gesture had a distinct appeal to the Panamanians, who blame the US Army for the wartime restrictions and interferences to which they have been subjected for several years.

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TRENDS IN BRIEF

GENERAL

The formation by the USSR of organizations similar to the Belgrade Cominform appears improbable at the present time (see page 1).

A desire among Eastern European countries to avoid economic separation from Western Europe has been demonstrated in recent sessions of the UN Economic Commission for Europe (ECE). Yugoslav, Polish, Finnish, and Czechoslovak delegates carefully avoided controversial political issues in the recent deliberations of the Industry and Materials Committee. If these countries are not forced by Soviet pressure to reverse their attitude, the ECE may become a useful medium for promoting European recovery.

WESTERN EUROPE

Terms of the projected UK-Soviet trade agreement reflect the fact that, contrary to Soviet propaganda claims, the economy of the USSR is not self-sufficient, especially with regard to industrial supplies. The draft, to which both parties have agreed "in principle," provides that 730,000 tons of coarse grain plus timber from the USSR be exchanged for British machinery; it also includes a revision of the 1941 credit terms and the stipulation that unsatisfactory deliveries of machinery from the UK will result in the cancellation of part of the grain shipments by the USSR.

The recent expulsion from France of the Soviet repatriation mission which had allegedly engaged in subversive activities has widened the rift which developed between France and the USSR at the July conference in Paris on European aid. The terse, bitter tone of the Soviet protests and the immediate Soviet retaliation (which included expulsion of the French repatriation mission from the USSR and the cancellation of trade negotiations) are indications of Soviet irritation with the recent failure of the French Communists

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to sustain politically-inspired strikes in the face of popular and governmental resistance and of Soviet anger over the French attitude at the London CFM. Mounting animosity between the two countries does not, however, presage a break in diplomatic relations, nor is it likely that either country will believe it advantageous to abrogate the Franco-Soviet mutual assistance pact at this time. It seems probable, however, that this accord will become increasingly void of meaning.

The last-minute move by the USSR to continue Austrian treaty discussions at the CFM on the deputy level has prevented a complete breakdown of the four-power negotiations at this time. The USSR apparently wishes to keep the door open for future negotiations regarding both Germany and Austria until the success or failure of Communist actions against the European recovery program is evident. However, the USSR will probably not make any material concessions in its economic demands on Austria because it relies primarily on economic pressure to force that country into the Satellite sphere. Current Soviet tactics in Austria suggest that the USSR may wish to reopen bilateral negotiations with the Austrians on such problems as German assets rather than negotiate a settlement in the CFM.

Alien employees of UK missions in the USSR and the Satellites will probably be replaced by British subjects in the interests of greater security. Following a current survey of its missions, the UK Foreign Office will probably request the necessary additional funds to cover such replacement and may even reduce the size of some of its missions.

The Soviet Military Administration is seeking to eliminate the remaining opposition in Germany's Eastern Zone by ousting key leaders from party posts and by forcing the two opposition parties to merge. Once such opposition leaders as Jakob Kaiser, head of the Christian Democratic Union, have been eliminated, the USSR reportedly plans to give the appearance of democratic procedure in the formation of a new puppet opposition group by arranging for a favorable popular referendum.

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De Gasperi's position and prestige have been improved by his actions in the recent Rome strikes, by the increase in the Government's majority in Parliament, by the latest assurance of continuing US interest in the maintenance of Italy's independence, and by the inclusion of Republicans and right-wing Socialists in his Cabinet. On the other hand, the rapid conclusion of the strikes could in no sense be considered an indication of the relative strengths of the Government and the Communists. The strikes, in fact, indicated Communist capabilities for paralyzing the city--if only for a short period--and they forced the Government to meet Communist demands for increased unemployment relief and public works appropriations. Moreover, the broadening of the Cabinet, by introducing new viewpoints, may impede rapid agreement on projected measures of reform.

Extension to French North Africa of the Jewish-Arab disorders in Palestine is extremely unlikely for the present in the absence of extremist provocation, now almost totally absent in Morocco, Algeria, and Tunisia. For decades the general tendency of the Jews and Arabs of North Africa has been to refrain from mutual antagonisms and to avoid religious strife. This tendency will probably continue, particularly in view of the fact that Arab nationalists have made only minor objections to the French vote for the partition of Palestine.

EASTERN EUROPE

The recent issuance of new currency in the USSR will probably not obviate the necessity for future adjustments in prices and wages despite Kremlin assurances to the contrary (see page 2).

The Satellites appear to be violating the prohibition in the Peace Treaties against military training of personnel not attached to the regular Army or Air Force. In Hungary, for example, units of the economic police (whose total strength is estimated to be 50,000) are undergoing military training and have been issued military equipment. Similar undercover military forces apparently are also being trained in Rumania and Bulgaria. In the event of war, this personnel could be employed by the USSR as an effective defensive force.

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The effect of the official withdrawal of Soviet troops from Bulgaria (which apparently will be completed by 26 December), will probably be partially offset by the transfer of officers and noncoms to key political and technical posts in an enlarged and re-equipped Bulgarian Army and Navy. In addition, some troops may be converted to civilian status to swell the ranks of the estimated 50,000 Soviet civilians who have come to Bulgaria during the past two years. Some of these have probably been given supervisory or advisory positions in Bulgarian industry and communications, and others have reportedly applied for Bulgarian citizenship.

NEAR EAST-AFRICA

The establishment of a free Greek government will depend on the extent to which the Satellites are willing to risk action by the Western Powers and the UN (see page 3).

No disagreement appears to exist among the Arab states on the question of support for the Palestinian Arabs, despite the disagreement between two of the states as to the action to be taken against the countries which have backed partition (see page 4).

A belief that major Soviet attack on Turkey is not imminent is implicit in the Turkish Government's reduction of its armed forces by approximately one-third and in its decision (coinciding with the withdrawal of Soviet forces from Bulgaria) to allow martial law in Thrace and in the Straits to lapse. By reducing the budgetary burden of a costly defense structure and by undermining the widespread criticism that martial law was continued mainly to throttle the Istanbul press, the Turkish Government will be able to strengthen its internal position. Turkey's deep fear of the USSR, however, indicates that the Government's action rests on the conclusion that in the near future, major Soviet pressures will be directed elsewhere.

If Reza Hekmat accepts the Iranian premiership, Iran's affairs will be handled in a more forthright but less astute fashion than under Qavam. Although a closer accord on issues related to the USSR may be expected between the Government and the Shah (who has long desired the removal of Qavam), conflict between Hekmat and the Shah may arise over tribal policies. Moreover, the operation of the new Iranian Government may be seriously obstructed by Qavam, who apparently still controls a strong bloc in the Majlis.

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The current easing of tension between India and Pakistan probably reflects a mutual recognition of the basic dangers of hostility as well as a common desire for the specific benefits obtained from such agreements as the comprehensive financial accord announced 9 December. Indian leaders may now feel that: (1) Sikh fanaticism, though primarily anti-Moslem, threatens India as well as Pakistan; (2) economic warfare, foreshadowed by Pakistan's imposition of heavy export duties on jute, would seriously embarrass the influential Indian industrialists; and (3) actual war with Pakistan, though probably suicidal for the Moslem dominion, would seriously damage India. Pakistan leaders meanwhile may have concluded that they can expect no real assistance from the UK or the US at present, and that, therefore, their financially-weak dominion must be more conciliatory toward India.

FAR EAST

The recent currency conversion in North Korea gives further support to the possibility that the USSR plans by early February to establish an independent government in that area in order to obstruct implementation of the UNGA resolution on Korea (see page 5).

No basic change in Dutch policy in Indonesia appears likely even if Acting Governor General Van Mook is removed as head of the NEI Government, although the Dutch attitude might become more conciliatory on minor issues. The Netherlands Cabinet, apparently seriously concerned by Van Mook's inclination toward independent action, is currently visiting Indonesia. There are indications that if Van Mook is uncompromising with the Ministers and offers his resignation, it will be accepted.

Former Annamite Emperor Bao Dai may shortly return to head a new Vietnam Government for those areas of Tonkin, Annam, and Cochin China which have been occupied by French forces. "Spontaneous" demonstrations for the return of Bao Dai have been resumed in major French-held cities. These demonstrations have coincided with the recent negotiations between French High Commissioner Bollaert and Bao Dai at which Bao Dai reportedly agreed to return and to head a government which would be granted independence within the French Union. However, France will control the

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foreign relations of the new state and presumably direct the employment of the "independent" army of the Bao Dai Government. Although these terms, as reported, are more generous than those offered by Bollaert in September, they fall short of the desires of many nationalists who oppose the Vietnam Republic because of Ho's Communist affiliations but insist upon actual independence. These nationalists would regard Bao Dai as a French stooge and might submerge their dislike of Communism and support Ho as the only remaining nationalist leader.

WESTERN HEMISPHERE

The Canadian Government is being subjected to increasing domestic criticism as a result of the measures it has been obliged to take in order to conserve its rapidly dwindling gold and dollar reserves. The restrictive measures recently imposed are bound to become unpopular as shortages of consumer goods increase and as prices rise. This discontent will be exploited by the opposition which already has opened attacks on the Government for its inclination to seek closer economic integration with the US. The Liberal Government, perhaps somewhat optimistically, expects the Canadian position to improve through anticipated benefits under the European recovery program and through increased exports to the US.

Nationalization of Argentina's foreign-owned petroleum properties has apparently been postponed by President Peron in deference to US wishes. Despite strong pressure from the Nationalists, the most formidable opposition to the Peron regime, Peron deleted from his Petroleum Day speech of 17 December any reference to expropriation.

Current efforts of the Dominican Government to negotiate the purchase of arms from the UK is another indication of Trujillo's determination to acquire arms regardless of the animosity it may arouse among neighboring Caribbean Republics. When the news of these negotiations becomes public, Venezuela and Guatemala (supported by Cuba) can be expected to protest the purchase and to press vigorously their territorial claims to Trinidad and British Honduras. If Trujillo is unable to obtain arms from the UK, he can be expected to turn to such countries as Czechoslovakia and Sweden.

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TOP SECRET**PROSPECTS FOR ADDITIONAL COMINFORMS**

Despite persistent rumors of the imminent creation in the Far East and in Latin America of companion organizations to the Belgrade Cominform, it is extremely doubtful that the Soviet Union intends to set up such overt regional organizations at this time.

The inclusion in the Belgrade organization of only major European Communist parties indicates that the Kremlin regards considerable local Communist party strength as a prerequisite to membership in a Cominform. A Cominform is neither a loose federation of Communist parties nor an organization devoted to building local party strength; rather, it is the center for the direction of militant activity in areas where Communist strength is already substantial. Although the creation of additional regional Communist groupings, particularly in Latin America, is a possibility, there would be little advantage at present to formation by the Soviet Union of additional Cominform. Furthermore, it is difficult to believe that, from the Soviet point of view, the advantages of Cominform in Latin America and the Far East would sufficiently compensate for the repressive measures which might result from the open acknowledgment by local parties of their subservience to Moscow.

Establishment of a Far Eastern Cominform (already rumored to exist at Harbin) presupposes a radical change in Soviet Far Eastern policy. In the past, the Soviet Union has scrupulously avoided identifying the Chinese Communist Party with Moscow, and it is highly improbable that the Soviet leaders would, at this time, jeopardize the Chinese Communist Party by acknowledging its connection with the world Communist movement.

The considerable current liaison between Latin American and European (especially French) Communist leaders, is believed to represent nothing more than normal co-ordination of Party policy. The USSR for the time being at least cannot hope to offset the US position of leadership in Latin America, and the role of Communist parties in that area must necessarily be negative in the event of an early East-West war. It is, therefore, most unlikely that the USSR will sponsor a Cominform in the Western Hemisphere.

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CURRENCY CONVERSION IN THE USSR

The recent issuance of new currency in the USSR had four fundamental purposes: (a) to reduce the volume of currency in circulation in order to decrease the inflationary pressure on prices and to facilitate the lifting of rationing; (b) to reduce the accumulated profits of speculators held in the form of cash; (c) to lessen the possibilities for profiteering and speculation; and (d) to increase the government-controlled labor supply by forcing private traders, speculators, and hoarders into more productive pursuits.

Although the decree promised that "this is to be the last call for sacrifice," it is probable that future adjustments in prices or wages will have to be made to accomplish the purposes of the currency conversion. It is unlikely that the Gosplan (State Planning Commission) had sufficient information regarding the volume and velocity of circulation of the old rubles to determine the proper conversion rate for the new ruble. The conversion rate appears to have been established largely by the "trial and error" method. The Gosplan probably will be unable to determine for several months whether further adjustments in prices or wages will be necessary to achieve its purposes.

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THE IMPLICATIONS OF A "FREE" GREEK GOVERNMENT

The "free" Greek government (which the "Democratic Army" radio claims will soon be established) would replace the provisional military government of General Markos announced during the summer. Whether such a government will be established depends on the extent to which the Balkan Satellites are willing, through their political and military activities, to risk action by the Western Powers and the UN.

Such a government could be "established" either on Greek soil or in Satellite territory. The maintenance of a de facto government in Greece would require such an extensive increase in Satellite material aid that Satellite intervention would be obvious to the world. On the other hand, a government on Satellite soil would still have some propaganda value (as an indication of a "free Greek struggle") even though it would be less effective and involve greater international diplomatic risk. Satellite recognition of such a government might afford the opportunity for such quibbling in the UN over the legality of the government as to offer the USSR an excuse to veto the application of UN Charter provisions regarding acts of aggression or threats to peace.

The timing of the Markos radio statement may indicate that the Communists hope to create an instrument by which the Satellites can increase their support of the guerrillas before US military aid to the Greek Government becomes effective. It may also represent an attempt to compensate for the recent Communist setbacks in Western Europe. It may have been made merely for its propaganda value. However, the guerrillas and the Satellites are militarily in a position to deal a severe, if not fatal, blow to the Greek Army and Government. They may feel that a "free" government would enable them to "legalize" such action.

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TOP SECRET**ARAB LEAGUE PLANS TO FIGHT PARTITION**

As expected, Arab determination to fight against the partition of Palestine continues unwavering, even though the Arab League states may not become directly involved for several months. In spite of the disagreement between Saudi Arabia and Iraq as to whether retaliatory action should be taken against those countries which have backed partition, no disagreement exists among the Arab states on the question of support for the Palestinian Arabs.

The decisions of the recent Arab League meeting in Cairo are unofficially stated to be the following: (1) the partisan movement in Palestine will be supported by funds, men, and arms; (2) the economic problem (presumably the question of economic reprisals against those states supporting partition) will be examined "at an appropriate time" by the Economic and Political Committee of the Arab League; (3) the official command of operations is given to Kawukji, guerrilla leader in the 1936-39 Arab revolt, who is ordered to take over immediately; (4) training is entrusted to Taha Hashimi, a former Chief-of-Staff in the Iraqi Army; (5) the first installment of funds is fixed at 3 million pounds (Ibn Saud has contributed an additional \$4 million and the Imam of Yemen 300,000 pounds); (6) a Special Committee is entrusted with the defense of the frontiers of Palestine, which would be guarded to prevent outside reinforcement from reaching the Zionists; and (7) no regular Arab army will intervene in Palestine until after the departure of the British troops.

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TOP SECRET**CURRENCY CONVERSION IN NORTH KOREA**

The recent currency conversion in North Korea, following the initiation of steps to draft a "Korean" constitution and a legal code, further strengthens the probability that the USSR intends to establish and recognize an independent government in its Zone. Such a government could be utilized by the USSR to obstruct the implementation of the UNGA resolution on Korea and would be a necessary preliminary to any unilateral Soviet withdrawal.

By restricting purchasing power and establishing a uniform currency, the conversion provides any new regime with at least a temporarily stable financial base. The conversion, moreover, will place further strains on the already critical economic situation in South Korea.

By the terms of the 5 December conversion, the Soviet occupation currency and the Japanese-issued Bank of Chosen notes were exchanged for new currency issued by the North Korean People's Council. However, individuals were permitted to exchange only a small amount of currency at a one-for-one rate; any excess had to be deposited in state banks where it is to be frozen for two months. The announcement of the conversion precipitated a buying panic which compelled the authorities to restrict trading to state-owned stores. The prices of many items in these stores were reduced 90% in an effort to instill confidence in the new issue and to advance the deflationary and stabilizing objectives of the conversion. The new currency, significantly, was issued by the People's Council, not by the Soviet occupation authorities, and the conversion was praised by Radio Pyongyang as a move of "great political significance in accelerating the formation of a United Korean Government."

Uncertainty as to the conditions under which the frozen deposits would be released undoubtedly has induced many North Koreans to hoard Bank of Chosen currency for illicit purchases in South Korea, where it is still negotiable. Those notes which have been turned over to the authorities for exchange may now be used in increased amounts to further Soviet subversive activities in the US zone. The resulting influx of currency into South Korea will accelerate the existing inflationary trend in that area.

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The exchange rate for currency frozen by the conversion measure reportedly will be announced on 4 February. The People's Council is scheduled to meet at that time to act upon drafts of the constitution and legal code. Soviet preparations for the recognition of a North Korean puppet regime presumably will be completed by that time, and a withdrawal of Soviet troops, if it is contemplated by the Kremlin, would probably follow shortly thereafter.

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TRENDS IN BRIEF

GENERAL

Increased restrictions on long-range international civil air operations are already resulting from the failure of the recent Geneva Convention to formulate a multilateral air agreement. Typical of this trend is: (1) Mexico's flat refusal to grant the UK a share of Mexican air traffic en route to other countries; and (2) Argentina's attempt to persuade the Scandinavian countries to accept drastically limited "en route" traffic and to insist on reserving all air traffic between Argentina and neighboring countries to Argentine airlines. As a remedial measure, the UK has proposed that the US and UK now join in: (1) vigorously promoting bilateral air agreements which provide "en route" traffic rights; and (2) encouraging the smaller but important countries engaged in long-range air operations to reject bilateral agreements which circumscribe these rights. The success of such US-UK action at this time appears dubious.

The continued reluctance of the International Transport Workers Federation (ITF) to join the World Federation of Trade Unions (WFTU) is seriously endangering the unity, and possibly the survival, of that Soviet-influenced organization. Although a number of national trade organizations are represented in the WFTU, the international trade secretariats have so far refused to join. These secretariats have looked to the ITF to take the lead; it now seems increasingly unlikely that the ITF will join. The divergent national interests of the WFTU membership have already led to controversy over international political issues. Continued abstention of the trade secretariats will further contribute to the collapse of the WFTU as a genuine trade union organization.

WESTERN EUROPE

Although Premier Schuman's vigorous and effective action has defeated the Communist-led strikes in France, the Communist Party can be expected to continue its attempts to wreck French economy. These attempts and the forthcoming hard winter will pose difficult problems for the Government but their effective solution may remove the possibility of De Gaulle's return to power (see page 1).

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The proposed currency reform in the Western Zones of Germany will benefit western German economy and hamper Soviet political activities (see page 2).

OMGUS officials in Germany fear possible civil unrest and a lowering of German production next spring because of food shortages in the late winter. OMGUS believes these shortages will be caused by: (1) the uncooperative attitude of the farmers; (2) the Bavarian Government's interference with equitable distribution of indigenous food; (3) the unforeseen delay of a year in the production of farm machinery and fertilizer; and (4) the serious effect of the 1947 drought on food production.

The announcement, under Soviet pressure, by Austrian railroad officials of a new list of commodities which can leave the Soviet zone only after USSR authorization, represents an expansion of Soviet zonal control. The new controls will permit the USSR further to consolidate its economic position in eastern Austria and to exert a greater influence on the economy of the three western zones. It is unlikely that the Kremlin intends by this process to force a partition of the country.

EASTERN EUROPE

The extent of Soviet control over the Satellite economies is illustrated by the recent five-year trade agreement between Yugoslavia and Hungary. The agreement requires an exchange of goods between the two countries five times greater than the prewar average, designates the USSR as the arbiter of all disagreements arising out of the treaty, and grants Yugoslavia supervisory rights over Hungarian industry far in excess of those normally included in trade agreements between sovereign nations. Although the agreement is ostensibly designed to develop the Yugoslav industrial potential, the degree of Soviet and Yugoslav participation in Hungary's industrial production suggests that long-range Soviet plans for economic consolidation of Eastern Europe provide that Hungary will be integrated into the Balkans rather than become a member of a central European or Danubian union.

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A device by which the USSR and the Satellites will seek to obstruct enforcement of the Balkan treaties is suggested by the Bulgarian Government's reply to US and UK requests for information regarding the present status of the Bulgarian armed forces. The Bulgarian Government is required by Article 35 of the treaty to provide the US, the UK, and Soviet missions with necessary information to ensure execution of the treaty for 18 months following its effective date. Bulgaria is delaying its reply to the above requests, however, on the ground that it must await a similar request from the USSR before acting. This reply is doubtless based upon a literal interpretation of the opening paragraph of Article 35 which states that the three heads of missions, "acting in concert," will deal with the Bulgarian Government in all matters concerning execution of the treaty. The USSR and the Satellites may similarly exploit identical passages in the Hungarian and Rumanian treaties to block effective enforcement of these pacts.

Soviet transportation difficulties will prevent the delivery of the 600,000 tons of grain which the USSR promised to Czechoslovakia by 1 May 1948. Meanwhile, however, the full propaganda value of the Soviet promise has been exploited by Czechoslovak Communists who timed their announcements as a climax to an intensive Communist campaign which exaggerated Czechoslovakia's food shortage. The Communists have carefully avoided any reference to the price being paid for grain delivered or to the extensive trade concessions being demanded by the USSR in return for such deliveries.

A sudden deterioration in UK-Yugoslav relations is reflected in a recent Yugoslav note which accuses the British of failure to implement the Tito-MacLean agreement regarding the return to Yugoslavia of certain displaced persons and collaborators, and it charges that the UK has carelessly guarded persons most desired by Yugoslavia and permitted them to escape to "other zones." The note abruptly ends a period of conciliation during which the UK went far to meet the Yugoslav position. The Yugoslav action may be the result of Kremlin orders for stronger support of the Soviet position at the CFM, or it may be intended as support for Yugoslav claims to the Austrian province of Carinthia where the British are alleged to be "permitting anti-Tito activities."

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NEAR EAST-AFRICA

The Dominion of India's shift to a pro-US attitude in the recent UN General Assembly and in UN economic commissions indicates a growing conviction by Indian Government leaders that US friendship is more valuable than that of the USSR, particularly in facilitating the economic development of the Dominion. Although India's strong basic opposition to "colonialism" is still paralleled by Soviet exploitation of the issue, India's current behavior contrasts sharply with its pro-Soviet stand in the UN during 1946. Prime Minister Nehru's declaration that India would remain aloof from US-USSR rivalries remains, however, India's official attitude.

Prime Minister Qavam's resignation (after his failure to obtain a vote of confidence in the Majlis on 10 December) follows dissension and factionalism in the Iranian Government and marks the culmination of a long struggle for power between Qavam and the Shah. At present, Qavam's most likely successor appears to be Reza Hekmat, president of the Majlis. Hekmat would undoubtedly be more amenable to the wishes of the Shah than Qavam, but in view of Hekmat's political inexperience, it is questionable how long a government formed by him would survive.

Persistent mob violence against Jewish communities throughout the Arab world, and possibly throughout the Islamic world, appears to be an unavoidable by-product of the Palestine crisis. The long-established Jewish communities in the Near East fear subsequent outbreaks over a long period and the imposition of an increasingly ghetto-like status. Although the leading rabbi of Baghdad has gone so far as to appeal for funds to fight the Zionists, the Iraq capital remains the principal danger spot: its Jewish quarter (about 100,000 persons) was the scene of extensive violence and looting in 1941, and the city today is a center of unrestrained anger about Palestine.

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FAR EAST

The Burmese Peoples Volunteer Organization (PVO), a semi-military group which is one of the two principal groups in the anti-Fascist League (AFL), appears to have launched a campaign to gain political dominance over the Government of Burma after independence is achieved in January 1948. If this campaign is successful, it will diminish the influence of the Socialists, the other major element in the AFL, possibly to the extent of excluding them from the Government, and will effect the dissolution of the AFL.

WESTERN HEMISPHERE

Argentine policy in relation to the US appears now to be one of cooperation within the limits prescribed by domestic political considerations (see page 3).

The 14 December national and municipal elections in Venezuela are expected to result in landslide victories for Provisional President Betancourt's Democratic Action Party which led the 1945 revolution and subsequently carried out a far-reaching reform program (see page 5).

The resignation of Panamanian Foreign Minister Alfaro, subsequent to the signing of a US-Panamanian defense sites agreement, presages a bitter debate over ratification of the agreement by the National Assembly. Certain prominent Panamanian politicians, besides Alfaro, are opposed to the agreement on the grounds that: (1) the clause providing for a ten-year lease with a ten-year renewal option on the Rio Hato base is "unreasonable"; and (2) the agreement does not provide for "compensation" of any kind to Panama. Panamanian Ambassador to the US Vallarino has "grave doubts" that it will be ratified.

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TOP SECRET**RESULTS OF COMMUNIST STRIKES IN FRANCE**

The defeat of the crippling Communist-led strikes in France is the result of vigorous and effective action by the Schuman Government and the growing split in French labor between Communists and non-Communists. The Government has gained in prestige through its victory over the Communists. Communist prestige and support have been correspondingly reduced and the Communists have suffered a setback in their aim to wreck the French economy. However, they have caused a serious loss in production of coal and other industrial products which will adversely affect the European recovery program.

Although the French Communists have been defeated in their first effort to employ against the Government the full economic power inherent in their control of labor, they can be expected to continue to wield economic power for political gains. Their objectives remain unchanged: to wreck the French economy, to render US aid ineffective, and eventually to assume control in France. The Communists probably will not launch widespread strikes again in the near future, but they will continue to exercise their capability to dislocate the French economy by sabotage and violence. Under direction from the Kremlin, they may even engage in such direct action as to cause their Party to be outlawed in France but, even in that event, they will be capable of disruptive clandestine action.

In any case, the newly-strengthened Schuman Government will face difficult tasks in the months to come. While trying to prevent further work stoppages, the Government must: (1) seek to overcome the serious economic setback resulting from the recent strikes; (2) resolve anticipated disagreements between Socialists and Radical Socialists in the coalition regarding methods for economic recovery; and (3) weather the adverse effects of a hard winter and the unpopular measures which it must take to combat inflation. If the Government can succeed in all these respects, it may be able both to defeat the Communists and to remove the possibility of De Gaulle's return to power. If Schuman fails, a Gaullist solution will become probable, and Schuman's vigorous action against the Communists will have prevented them from forcing De Gaulle to power prematurely.

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TOP SECRET**EFFECTS OF CURRENCY REFORM IN WESTERN GERMANY**

A proposed currency reform for the Western Zones of Germany, including the issuance of new currency, will not only have a beneficial effect upon western German economy, but it will also severely hamper Soviet political and economic activity in Germany by blocking large sums of the old currency.

An estimated 34% of the present German currency is in the Soviet Zone. Of this amount, the Soviet Military Administration possesses substantial reserves which have been derived from the 1946-47 zonal income and from currency seized when Soviet forces entered Germany. From these reserves, the Soviet authorities have to a great extent financed the activities of the western Communist Party which spends about ten times as much as any other party in the combined zone, at no cost to the USSR. Similarly, German currency that is relatively useless in the unproductive Eastern Zone is used by Soviet nationals to buy goods in the west, especially expensive technical equipment. This purchasing siphons off badly-needed goods to the USSR and to the Satellite countries, all at no cost in goods or dollar exchange to the USSR.

All the above activities will be hit hard by western currency reform. The Communists in the Western Zone, who have not declared their illegal income, are not likely to risk exposure by the sudden presentation of large sums of money for exchange prior to the establishment of the new currency. The currency reform will therefore compel the Communists to use either dollars or goods to finance their activities by rendering useless for this purpose their large cash reserves in reichsmarks.

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ARGENTINE ATTITUDE TOWARD THE US

The Peron Government has demonstrated over the past twelve months that cooperation with the US has now become a basic constituent of Argentine foreign policy. Present divergences between US and Argentine policy spring largely from domestic political considerations and do not indicate that Peron is likely to withhold active cooperation with the US.

Argentina's unprecedentedly cooperative attitude toward the US is undoubtedly based upon a shrewd calculation of the country's national interest. Nonetheless, Peron has now demonstrated his desire for a US rapprochement on so many occasions that, in the absence of a major issue between the two countries, he could not reverse himself without great loss of face both at home and abroad. A few months ago, at genuine risk to the stability of his regime, he dismissed the powerful anti-US, Nationalist police chief, General Velazco. Later, in an alleged deference to US policy, he gave indications that his Government may depart from the Argentine policy of state-controlled trade and commerce, at least far enough to permit Argentine participation in the International Emergency Food Council and the International Trade Organization. Moreover, the Peron Government is now encouraging US business enterprises in Argentina by relaxing inhibitory controls. Peron has also assured the US of Argentina's support in the event of war with the Soviet Union.

On the other hand, Peron's major objective is to maintain, in support of his regime, an unassailable strong coalition of major groupings in Argentina's highly heterogeneous population, and he has followed a line independent of the US when political costs were otherwise likely to be prohibitive. Such an instance was Peron's proclamation of a so-called "third peace position," opposed to both capitalist and Communist "imperialism," which was argued in terms evidently calculated to appeal to the Vatican and to please Argentine Catholic elements. The activity of Argentine labor attaches in other Latin American countries, in openly opposing US "domination" of the Hemisphere trade union movement and in attempting to mobilize working-class sentiment against US economic policy, enables Peron to make political capital with the labor elements at home which demand

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a vigorous foreign labor policy. The Argentine Foreign Office continues to advocate joint inter-American action against Communism, which is counter to the US policy of leaving each republic free to handle this problem in its own way, but Peron is here deriving political benefit from the fact that the Argentine population is violently anti-Communist and derives genuine satisfaction from even the mildest verbal gestures against the Soviet Union. Finally, Peron's recall of the principal Argentine delegate at the ITO Conference at Havana for new instructions which "will be unobjectionable to the US," indicates that, in this case, the advantages of cooperation with the US outweighed possible domestic political gains among advocates of state-controlled trade and commerce.

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VENEZUELAN ELECTION PROSPECTS

The 14 December presidential, congressional, and municipal elections in Venezuela are expected to result in landslide victories for the Democratic Action Party (AD) which, under Betancourt's leadership, led the 1945 revolution and subsequently carried out a far-reaching program of economic and social reform. As these are the first national elections to be held under the new constitution, the size of the electorate and the number of posts to be filled by popular secret ballot will be far greater than at any time in the country's history.

The Democratic Action Party's presidential candidate, Romul Gallegos, will be opposed by both the conservative (COPEI) and the Communist Party candidates. Gallegos' success is clearly foreshadowed by his party's showing in the 1946 elections for the Constituent Assembly, the widespread popular support which it has been receiving, and the popularity of the reform program which it has promised to expand. The AD Party's election platform calls for an effort to increase industrialization and the introduction of new agrarian, social, and economic reforms. The AD seeks to stimulate production and stock raising. It favors a planned economy and lays considerable stress on "rationalization of relations between capital and labor." It is not, however, anti-US and it does not oppose foreign investments.

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TRENDS IN BRIEF

GENERAL

The British attitude toward the Siamese coup regime appears to be tending toward acceptance and recognition. UK representatives in Siam are reported to have unofficially entertained officials of the new government; local UK propaganda has been considerably more conciliatory toward Marshal Phibul than heretofore. The new UK attitude appears to be based on the growing belief that the new government is firmly entrenched and will honor the international commitments of its predecessor, the ousted Thamrong Government, particularly as regards the production and export of rice. It is very likely that the UK will shortly urge joint US-UK recognition of the coup regime. If US recognition is extended on this basis, the UK will seek credit for the step in order to obtain economic concessions.

The failure of the International Civil Aviation Organization (ICAO) to draft a multilateral air treaty at the recent meeting in Geneva has dealt a severe blow to long-range international air operations, particularly to those of the US. The Geneva convention revealed that a majority of the states participating in the ICAO wish to retain their sovereign right to deny foreign airlines intermediate traffic acquired en route to ultimate destinations. Because profitable long-range air operations are dependent upon such traffic, it may no longer be possible for US airlines to continue their operations on the present basis.

WESTERN EUROPE

The wave of disorders in France and Italy appears to be abating in the face of worker dissatisfaction with strikes and effective governmental efforts to meet this concerted Communist effort to disrupt the economy and prevent European recovery. Although the prospects for the Schuman Government in France have consequently been improved, De Gasperi's ability to cope with renewed and intensified Communist attacks is less certain (see page 1).

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The UK Labor Party's narrow victory in the recent significant Gravesend Parliamentary by-election will restore a measure of the Labor Government's prestige and confidence. Both the Labor and Conservative Parties accepted the challenge to make a test case of this by-election. The result confirmed the swing away from Labor, but it also proved that the swing has by no means the landslide proportions claimed by the Conservatives following the recent municipal elections.

Soviet efforts to win German public opinion by posing as the champion of German unity have proved unsuccessful. All German political parties except the Soviet-controlled Communist Party (KPD) in the west and Socialist Unity Party (SED) in the east have either conspicuously failed to support the Soviet concept of German unity or have vigorously denounced it. This attitude was exemplified by Jakob Kaiser, Eastern Zone Christian Democratic Union leader, who flatly refused to attend a Soviet-sponsored "Unity" meeting scheduled for 6 and 7 December in Berlin.

EASTERN EUROPE

The ending of the prolonged period of military inactivity in Greece is foreshadowed by: (1) immediate military preparations by both the Greek Army and the guerrillas; and (2) increasingly formal and vigorous aid to the guerrillas from the Satellite nations. The Greek Army's scheduled offensive of 15 December may be countered by the establishment of the long-awaited "free" Greek government and participation of foreign personnel in actual combat (see page 3).

The Yugoslav-Bulgarian mutual assistance pact signed on 27 November, although another step in centralizing Soviet control over southeastern Europe, does not presage the immediate formation of a Balkan Federation or the creation of a political union between the two countries (see page 4).

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Although the USSR is not expected to lessen its efforts to control Western Europe, recent Soviet propaganda reflects the recognition of the need for a change in tactical methods and further countermeasures against the European recovery program (see page 6).

NEAR EAST-AFRICA

Concerted Arab action against the partition of Palestine may be expected after the British withdrawal which is expected to begin early in 1948. Meanwhile, evidence is increasing that the USSR intends to capitalize on the chaos which will result from attempts to implement partition (see page 8).

A revival of Soviet designs on Iranian Azerbaijan is indicated in the USSR's stepped-up propaganda campaign against Iran, following the sharp exchange of notes on the oil question at the end of November. Soviet agents are increasingly active in Azerbaijan; the official Soviet press and radio are again promoting "independence" for Azerbaijan; and the clandestine radio, in its appeals to Kurds and Azerbaijanians, states that the struggle for the province will "now" begin. Moreover, the unconfirmed report of a planned invasion of northern Iran by Soviet-organized Iranian minority elements specifies that the drive will begin on 13 December, the first anniversary of the recapture of Azerbaijan from the autonomous, pro-Soviet rebels. Meanwhile, the Iranian Cabinet has resigned because of disagreement with Prime Minister Qavam over domestic policies, and it appears that Qavam himself will soon be forced out of office.

FAR EAST

Dutch plans for a federated United States of Indonesia, excluding the present Republican Government, are progressing. An agreement with East Indonesia, similar to that reached with the Republic at Linggadjati, is expected to be signed early in 1948. The Dutch will probably then negotiate with Borneo and the various autonomous groups now being organized in the former

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Republican areas of Sumatra, Java, and Madura. If Dutch authorities succeed in setting up the states which they have proposed for Sumatra and East and West Java, the area of the Republic will be reduced to Central Java. Consideration of the territorial limits of the Republic will probably become a major problem of the UN Good Offices Committee.

A new Burmese political party, the Marxist League, has been formed by the two major components of the Anti-Fascist Peoples Freedom League (AFL). Because the leaders of the new party have drawn a sharp distinction between Burmese socialism and the policies of the USSR, the Marxist League does not presage a pro-Soviet orientation of the Government of Burma.

WESTERN HEMISPHERE

Argentina, Brazil, and Chile are expected to promote some form of joint anti-Communist action at the Bogota Conference, despite US preference for unilateral measures (see page 9).

The recent sale by Brazil of arms and ammunition to the Dominican Republic represents a continuation of Trujillo's illicit practice of acquiring arms and has aroused further animosity in neighboring Cuba, Guatemala, and Venezuela. By pursuing this policy, Trujillo has upset the balance of power in the Caribbean--a balance which has always been delicate because of the traditional tendency of Caribbean republics to offer asylum to political exiles from other republics and to overlook their conspiratorial activities. In their apprehension over Trujillo's increased armed strength the other Caribbean republics can be expected increasingly to permit subversive activities directed against Trujillo. Correspondingly, Trujillo can be expected to condone if not encourage similar activities on Dominican soil as a means of checking the conspiracies of his neighbors.

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TOP SECRET**COMMUNIST PROSPECTS IN FRANCE AND ITALY**

The wave of disorders in France and Italy appears to be abating as a result of worker dissatisfaction with strikes and of vigorous government measures to meet this concerted Communist campaign to disrupt French and Italian economies and thus prevent European recovery. Consequently, the Schuman Government in France has gained such strength as to improve considerably the prospects for a genuinely stable non-extremist French Government. In Italy, De Gasperi's position has been improved but his ability to cope with renewed and intensified Communist activity continues uncertain.

In France two million workers in coal mines, transportation, and communications are beginning to return to their jobs; the Communist Party has been isolated; its control of the CGT threatened; and the Schuman Government has gained wide popular support. If Schuman continues to act with skill and to avoid alienating the non-Communist left, he should be able to win sufficient popular support to prevent the accession to power of either the Communists or De Gaulle.

Schuman's success in combating strikes will also help non-Communist labor leaders to break Communist control of organized labor or will so split the CGT as to avert further threat of Communist-led political strikes and thereby improve prospects for economic stability and a balanced budget. In such circumstances Communist disruption by Constitutional means would be rendered ineffective and the Communists are unlikely to resort to militant action. In the absence of strong encouragement and support from Moscow, the French Communists are not expected to attempt seizure of power by force. The Kremlin is unlikely to dictate such action, particularly in view of the French Army's attitude and capabilities. On the other hand, the Kremlin will continue to instruct the French Party to attack the Government by all means short of military action, accepting the certainty of further defections from the Party and the possibility that the Party may eventually be outlawed and compelled to go underground.

In Italy the situation is somewhat different. The De Gasperi Government has successfully defeated a Communist attempt to disrupt the economy through strikes and violent demonstrations by enacting legislation designed to improve economic conditions and to counter Communist allegations that the Government is encouraging the resurgence of Fascism. However, the Italian Communists are expected to follow up this temporary setback to their plans with a renewed and intensified campaign. Communist leader Togliatti has indicated that

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the next phase will be based on the theory that "the factories belong to the workers." He is likely to demand: (1) control of industrial production and credit by factory committees; (2) power to confiscate and nationalize those industries now threatening "lockouts or unjustifiable dismissal of employees"; and (3) recognition and legal status for workers' factory committees by legislation which will compel all industries to create such committees. De Gasperi is attempting to forestall this maneuver by appointing a committee to study "proposals on the ways and the limits of the collaboration of workers in the management of industrial concerns."

The Communists will try to discount this action as a "stall" and an empty gesture, and they are expected to call for a general strike to enforce concessions which De Gasperi and Italian industry cannot and will not grant. The success of such a strike will depend largely on the response of six million Italian workers who appear to have become weary of the long series of strikes and demonstrations which they have recently staged. These workers will also be influenced to a very large extent by the assurance of immediate US aid, food, and fuel. It is unlikely therefore that the strike will succeed.

To combat this strike or armed insurrection, however, De Gasperi is in a weaker position than Schuman. There is no organized group of non-Communist workers in the Italian labor movement which can dispute domination of the Communist labor leaders. The Italian Army is not so well equipped as the French Army and suffers from a scarcity of gasoline and funds. Moreover, De Gasperi cannot be sure of the loyalty, determination, and effectiveness of its commanders. Despite the relative weakness of the Italian Army, however, it appears probable that De Gasperi could suppress a Communist revolution unless the rebels receive substantial aid in food, munitions, equipment, and men from neighboring Yugoslavia.

The situation in both France and Italy is still serious. Bad timing by Schuman in carrying out his program, or unwarranted use of force by the military, could drive some of his supporters among the left-wing Socialists into the Communist ranks. Although public order is better at the moment in Italy, the situation there is potentially more ominous, particularly because of Italy's proximity to Soviet-controlled Yugoslavia. There is reason to believe, also, that Moscow is concentrating on Italy, in the belief that France is already lost to the Communist cause for the time being, whereas in Italy the relatively stronger position of the Communist Party and the weaker position of the Government make Italy a better "risk." In both countries, however, the Communists will seek to create the maximum possible chaos in order to carry out the primary Soviet aim of defeating European recovery.

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THE MILITARY SITUATION IN GREECE

The prolonged period of ~~indecisive military activity~~ in Greece, which has sapped the morale of both the Greek Army and the guerrillas, will probably end soon. The Greek Army has scheduled a winter offensive to begin 15 December. The guerrillas have made parallel preparations for winter operations, including: (1) the regrouping of mountain bands in battalion strength; and (2) the consolidation of certain guerrilla-dominated areas.

Apparently, Greek and Satellite Communist leaders now feel that more spectacular successes are desirable, particularly in view of the announcement that US Army officers are to give tactical advice to the Greek Army. In the Satellite countries there has been a sharp increase in the organization of both overt and covert aid to the guerrillas, and the effect of the training program alone is already apparent in the improvement of guerrilla technique in such operations as communications and sabotage. In Rumania, a campaign for medicine, clothing, and other material aid to the guerrillas has been conducted vigorously and openly. In Yugoslavia, Soviet and Satellite Communists have held numerous secret meetings with guerrilla leaders on both military and political matters. Within Greece, many Soviet and Satellite representatives have joined the headquarters of General Markos and have virtually taken over control of the KKE (Communist) Central Committee. International brigade units are reported to be ready for operations.

The open participation of foreign combat personnel in the Greek struggle therefore appears imminent. This step is being publicly defended by the argument that the presence of US staff officers in Greece entitles the governments of "other Balkan states" (presumably including "free" Greece) to invite the troops of big powers into their territory. General Markos has announced that any US officers captured by the guerrillas will be treated as "enemies."

The opposing military forces now appear evenly matched and immediate victory is not anticipated by either side. Definite initial successes by either the Greek Army or the guerrillas would, however, have a profound effect on morale, a factor of extreme importance, and might thereby strongly affect the final outcome.

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TOP SECRET**THE YUGOSLAV-BULGARIAN PACT**

The Yugoslav-Bulgarian mutual assistance pact signed by Tito and Dimitrov on 27 November constitutes another step toward Soviet control of the Satellites. The pact does not, however, presage the imminent establishment of a Balkan federation or the creation of complete political union between the two countries.

The deluge of propaganda issued before and after the signing of the pact has revived rumors of a possible immediate formation of a Balkan federation. Such rumors have been bolstered by the fact that Dimitrov, who is ill and has aged greatly in recent months, can no longer be considered to be Tito's rival for supreme leadership in the Balkans and that, therefore, their rivalry is no longer a bar to some sort of federation. Moreover, the possibility exists that in the event of the incorporation of Bulgaria into Yugoslavia or the establishment of a federation, Bulgaria would claim its freedom from peace treaty commitments.

Actually, however, neither the USSR nor the Governments of Yugoslavia and Bulgaria are ready for federation or political union. Because of the long-standing antagonism between Bulgarians and Yugoslavs, the Communist Governments will need more time in which to "educate" the people before they can force them to accept such a union. Furthermore, neither Government is yet prepared to tackle the complexities of political and economic administration which would result from either a federation or union of the two countries.

Although the USSR undoubtedly has long-range plans for more centralized control of its Satellites, the exact nature and implementation of such plans will depend upon developments in Western Europe, the outcome of the struggle in Greece, and further consolidation of Communist control in Eastern Europe. Meanwhile, the USSR, without jeopardizing its long-range plan, can effectively increase coordination between the Satellites through a system of interlocking, bilateral agreements coordinated through Communist Party channels. Simultaneously, the USSR can utilize every opportunity--such as the signing of the Yugoslav-Bulgarian mutual assistance pact--to propagandize the theme of Slavic solidarity and to prepare the people for future relinquishment of their national sovereignty.

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The present pact between Yugoslavia and Bulgaria, therefore, is little more than the first act of a play that had been written in August at the Bled Conference. It is highly unlikely that the USSR would have ordered the signing of the pact at this time simply in an effort to free Bulgaria of its treaty commitments by uniting it with Yugoslavia. The USSR can under present conditions effectively circumvent any obnoxious treaty clauses. The Soviet Union may even find it possible to maintain Soviet troops in Bulgaria beyond the 15 December date line through the simple expedient of a Bulgarian Government request for the retention of the troops.

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TOP SECRET**SOVIET PROPAGANDA PREPARES FOR POSSIBLE
STALEMATE IN THE WEST**

A recent article by the leading Soviet economist, E. Varga, appears to reflect the Kremlin's recognition that an early attainment of Communist objectives in the west is unlikely. The article therefore lays the base for a tactical retreat on the propaganda front. Although he repeats the official theme of inevitable capitalist collapse, Varga writes that such collapse is by no means imminent and that a protracted stalemate between capitalism and Communism is probable.

Varga's present thesis contrasts sharply with the previous Soviet line, which has for the past year been predicting a severe economic crisis in the US some time in 1948. In fact, Mr. Varga now concedes that the US social order, in contrast to that of Western Europe, "is still quite firm."

This admission takes on special significance when viewed in the light of the dominant Soviet propaganda line since the announcement of the Marshall proposals. During the past summer and fall, Communist spokesmen have consistently emphasized the necessity of accelerating a more militant Communist program. They apparently have considered prompt action in meeting the challenge of the European recovery plan an urgent necessity and seem to have sought an early economic and political showdown with the west. Varga's current article, therefore, may be interpreted as recognition that an early victory is unlikely; he may be preparing the way for a tactical retreat on the propaganda front.

The Varga article also lays stress upon the "striving for independence" of the peoples of China and the colonial areas of Asia. Although he is dubious as to the chances of an early "democratic" victory in Europe, Varga comforts his readers with the observation that "the broad masses of the colonial workers and peasants are striving, with decisive force, toward the final liquidation of the colonial system." Among the "slave-owning economies" of Latin America and Africa, however, Varga does not foresee any early "democratic" successes.

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The Varga article may well reflect the Kremlin's realization that the prospects of early Communist victories in Western Europe are diminishing and that a reshuffling of tactics is necessary in the event that present countermeasures against the success of the European recovery program fail to bring about the desired results. Any change in timing or tactics will be presented, both for internal and external consumption, not as an alternative forced upon the USSR, but as being in accordance with a well-formulated plan. While the Varga article may be intended to prepare the propaganda groundwork for possible Communist setbacks in Western Europe during the coming months, it in no way suggests any relaxation in the USSR's westward pressure.

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TOP SECRET**THE PALESTINE SITUATION**

The initial Arab reaction to the UN decision on Palestine has followed the expected pattern of "spontaneous" rioting. In Palestine, these outbreaks consist of armed clashes between Arabs and Jews; in the Arab states, there are attacks on Jewish quarters and demonstrations directed primarily against the US. Such manifestations of popular feeling may be expected to continue as a preliminary to large-scale organized Arab resistance to partition. The Arab League is scheduled to reconvene on 12 December to complete plans for the defense of Palestine, but concerted military action will probably be delayed until after the British withdrawal, which is expected to begin early in 1948.

The Arabs do not intend to establish a separate government in the Arab-state sections of Palestine delineated by the UN and are expected to boycott all efforts of the UN commission charged with the transfer of authority from the British to the new Arab and Jewish states.

Meanwhile, evidence is increasing that the USSR intends to make capital of the chaos resulting from attempts to implement partition. If troops from various countries are sent to Palestine, the USSR will undoubtedly seek to include a contingent of Soviet troops specially trained for subversive political activities. At present, the USSR is taking steps to establish its influence in the area by sending agents to Palestine along with illegal immigrants. A sizeable number of Soviet agents are reported to be included among the bona fide immigrants on the PAN CRESCENT and PAN YORK, two ships under Panamanian registry scheduled to sail for Palestine from the Rumanian port of Constanza between 10 and 15 December. Space on the vessels has also been allotted to the "Jewish Marxist Youth," a Rumanian organization oriented toward Moscow.

In Palestine the USSR is reported to be working mainly through the illegal Jewish Stern Gang, with subsidies and recruits dispatched from the Soviet Union via Syria. The Communists are expected soon to shift their Near East headquarters from Lebanon to Palestine, which will then become the center of Soviet operations in the area.

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~~TOP SECRET~~**DIVERGENT HEMISPHERE VIEWS ON ANTI-COMMUNIST STEPS**

Three major South American nations--Argentina, Brazil, and Chile--have shown strong interest in common measures against Communism by the countries of the Western Hemisphere. These countries are likely to introduce at the forthcoming Bogota Conference a concrete proposal for joint action. Also, at least four other countries--the Dominican Republic, El Salvador, Nicaragua, and Paraguay--can be expected to favor joint action and to oppose any attempt to keep the matter from being discussed at Bogota. Up to the present only Colombia, Cuba, and possibly Mexico seem to side with the US position that anti-Communist measures are a matter for individual action.

The growing sentiment in favor of joint action might lead to: (1) sharp division in the Bogota Conference; and (2) the re-emergence of the ABC (Argentina-Brazil-Chile) combination as a counterforce to US influence in the Hemisphere. While it is not likely that a proposal for joint action would be accepted at Bogota in the face of US opposition, the ABC countries can be expected to use it effectively as a bargaining weapon. Moreover, they might attempt collective anti-Communist action, independently of existing inter-American machinery. Argentina, Brazil, and Chile for the most part lie outside the US range of immediately effective military action in the Hemisphere. Together, they constitute the only potentially strong opposition to the US in the Americas. They have acted in concert, independently of the US, on several occasions in the past: during the difficulties between the US and Mexico following World War I, for example, and, more recently, in one of the UNGA subcommittees with respect to UN admission criteria. Even though none of the ABC countries would at this time extend their opposition to the point of backing the interests of a non-Hemisphere power against those of the US, they can be expected, as they further develop appropriate techniques of cooperation, to utilize them as a means of extracting concessions from the US.

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TRENDS IN BRIEF

GENERAL

Although Soviet objectives in Germany and Austria have apparently not altered since the Moscow Conference, the USSR may make certain concessions at the London meeting of the CFM in recognition of the stiffening attitude of the Western Powers on German and Austrian problems. Such concessions, however, will probably be designed more to serve as propaganda for the USSR than to achieve agreement (see page 1).

Current Communist-inspired violence in France and Italy represents the beginning of a militant effort to create a "revolutionary situation" (see page 4).

UNGA adoption of the Palestine partition plan is doubtful. Two to six additional negative votes or abstentions could defeat it. The general desire to achieve some solution, reinforced by possible Arab concessions, might then lead to adoption of the Arab-supported plan for a unitary state (see page 7).

A strong Soviet note, declaring that Iran's rejection of the oil proposal was a hostile action for which Iran must bear full responsibility, was reportedly presented to the Iranian Government on 20 November. The probable purpose of the note, which is the Kremlin's first official public expression of its attitude to the rejection, is: (1) to rekindle the war of nerves and to force Iran to orient itself toward the USSR instead of the Western Powers; (2) to demonstrate, just before the London meeting of the CFM, the determination of the USSR to carry out its policies in all theaters; and (3) to undermine confidence in the European recovery program by implying that military action may be imminent.

WESTERN EUROPE

The resignation of Premier Ramadier was forced by the growing hostility of the RGR (composed primarily of Radical Socialists) to the Socialist economic program and the basic disagreement between the MRP (Popular Republican Movement) and

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the Socialists on measures needed to halt the wage-price spiral. Any coalition government which succeeds Ramadier will, nevertheless, face the same political and economic problems and must deal with them more effectively if it is to survive.

Spreading Communist-inspired strikes in France may develop into a series of regional strikes which will be identical, in effect, with a national general strike. The Communists probably wish to avoid the appearance of a general strike in order to prevent a definite showdown with the Government at this time. Such widespread strikes, however, are in line with the Cominform directive for the increase of "revolutionary mass action" on all fronts, regardless of adverse consequences to local Communist parties, and the disruption of economic and political structures in order to defeat the European recovery program.

The withdrawal of the sole Communist Party representative in the Austrian coalition Cabinet will not affect the internal political equilibrium. Although nominally participating in the Government, the Communists have, for practical purposes, been a party of the opposition. This move, however, may be a signal for a substantial increase in Communist agitation, particularly in the Soviet zone, as a convenient means of further embarrassing the Government.

EASTERN EUROPE

Yugoslavia has temporarily abandoned certain economic controls in favor of increased trade with the West, in order to prevent the failure of the Yugoslav five-year plan and to further the country's industrial program (see page 8).

The Yugoslav Government's recent policy of ostensible cooperation with the Allied Military Government in Trieste is designed primarily to further Yugoslav political and economic penetration of FTT. Moreover, by publicly announcing its willingness to accept UN jurisdiction over FTT, in the face of continued Italian claims that Trieste rightfully belongs to Italy, the Yugoslavs hope to embarrass the Italians. Actual Yugoslav intentions are indicated by the inability of the US-UK and Yugoslav officials to agree on any of the basic problems already discussed in joint conversations.

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Recent Communist setbacks in Czechoslovakia, in the failure of the Party to gain control of the Slovak Government, and in the replacement of Communist fellow-traveller Fierlinger with the more independent Lausman as head of the Social Democratic Party, will probably force the Communists to abandon parliamentary procedures and adopt tactics used by Communists in Poland, Rumania, and Bulgaria. At present, the Communists, through the secret police, are redoubling their efforts to collect evidence for a "conspiracy" trial in which an attempt will be made to implicate the US.

Dependents of Soviet occupation troops, up to the rank of colonel, apparently are being returned to the USSR from the Soviet Zone of Germany prior to 1 December. The primary reason for this decision is believed to be a desire to prevent fraternization and consequent "contamination," both of the dependents and the troops, and to check increasing desertions from the Soviet armed forces in Germany. During the first two years of occupation, Soviet troops and their dependents were quartered in small, widely-scattered towns. As a result, the Soviet nationals were able to have close associations with the local German population. These contacts resulted in dissatisfaction among the Soviet nationals and encouraged many desertions because of unwillingness to give up associations with German girls or female displaced persons. Soviet troops were then ordered to move into concentrated areas, such as barracks and deserted factories, and anti-fraternization regulations were more rigidly enforced. In order to reduce further the possibility of "contamination," the tour of duty in Germany for Soviet troops was reportedly reduced from two years to one year. Recently, Soviet authorities have adopted new procedures regarding all persons going on leave or returning to the USSR. These individuals now are carefully screened, relieved of their loot, and thoroughly indoctrinated so that they will not divulge details as to standard of living and other conditions outside the USSR.

The USSR appears to be delaying grain shipments to Western Europe purposely until late spring or early summer of 1948 in order to attain the maximum political effect from its "generosity." The USSR obviously expects that after Western Europe has passed through a difficult period early in 1948 and after the US grain surplus has probably been exhausted, the political benefit to the

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USSR of any shipments will be greatly enhanced. Furthermore, on the basis of a better estimate which can be made then of European crop conditions, the Kremlin can: (1) safely default on its current promises without loss of prestige, if European crops are good; or, (2) if Europe's grain yield is poor, gain greater profits from Soviet exports than would be the case now with simultaneous US deliveries.

FAR EAST

The UN Good Offices Committee in Indonesia is meeting serious obstacles in its efforts to carry out the SC cease-fire order and to reopen political negotiations between the Dutch and Indonesians (see page 9).

The new Siamese regime under Premier Abhaiwong is attempting to obtain foreign recognition in order to reinforce its position. As evidence of the "civilian" character of the new regime, Government supporters point: (1) to the formal transfer of power to Abhaiwong by the military coup leader, Marshal Phibul Songgram; and (2) to Abhaiwong's insistence that his government will be free from any influence by Phibul and the military group and will honor its international obligations. However, foreign governments are likely to defer recognition because of the fact that the Abhaiwong Government owes its existence to the military group and therefore will probably be susceptible to some military control.

Lawlessness continues unchecked in the Arakan Division of Burma near the Indian border, although reinforced troops and police forces are attempting to restore order by guerrilla operations against major groups of brigands. The Arakan area, geographically isolated from the rest of Burma, has a distinctly separate tradition which may develop into a serious separatist movement if the groups resisting the Burmese Government combine forces. Such separatism may encourage similar movements among minority ethnic groups, such as the Karens, and thus impair the authority of the newly independent Government of Burma.

The possibility of peace talks between Chinese Communists and Nationalists has been discussed recently by high Nationalist

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officials. While there is yet no general sentiment in favor of compromise, the inclination of some Nationalist leaders to consider such a possibility is indicative of their current despondency over the serious military situation and over their belief that the positive program of US aid to China, forecast in recent statements by Secretary Marshall, involves amounts which are inadequate for China's needs. If the Government becomes convinced that there is no hope of reversing present trends of military and economic deterioration, it will probably seek a compromise with the Chinese Communists as a last-resort alternative to disintegration. So long as military developments continue in their favor, however, the Communists will not accede to such a settlement, except on terms which would give them a dominating position in the Government.

Chinese Communist forces have gained a substantial strategic victory by occupying positions which threaten all vital communications in central China. The latter region has now displaced Manchuria as the most important area of Chinese military operations. The Nationalists can only dislodge the Communists from their new bases by a successful, major offensive. Such a success appears dubious in the face of currently reduced Nationalist military potential.

WESTERN HEMISPHERE

The Peron Government's recent tendencies to attack the liberal newspapers that are opposing its economic and social policies and to adopt a more lenient policy toward the Communists are probably connected with the Government's determination to amend the Argentine Constitution. Peron can only amend this Constitution by gaining the support of large numbers of middle-class voters who are deeply influenced by the liberal newspapers. The Argentine Communists, on the other hand, are few in number, committed to a cautious non-revolutionary program, and inclined to focus their attention upon international, rather than domestic, questions. The Peron regime has apparently decided, therefore, that liberal newspaper opposition threatens the long-term prospects of the Peron regime while the Communists do not.

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A minority clique in President Morinigo's Colorado Party, Paraguay's only operating political organization, has assumed control of the country, with the support of the Asuncion police, and has forced the choice of one of the clique's sympathizers as the Party's candidate in the 1948 elections. Another candidate, who represents the Party's more democratic wing, was forced to withdraw.

The recommendation that German assets in the Western Hemisphere be pooled to satisfy pending reparations claims has failed to obtain the approval of the Inter-American Economic and Social Council. The "pool approach" to the reparations problem will therefore probably be abandoned.

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A R T I C L E S

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TOP SECRET**THE LONDON CFM CONFERENCE**

Since the adjournment of the Moscow Conference of Foreign Ministers on 24 April 1947, subsequent international meetings have given no evidence of any change of position by the USSR on the issues concerning Germany and Austria which will be discussed at the forthcoming London Conference of the CFM. Neither the protracted meetings of the Austrian Treaty Commission in Vienna nor the present largely fruitless efforts of the deputies at London to reach agreement even on minor matters have indicated the slightest adjustment of Soviet aims and objectives. Meanwhile, the US, the UK, and France have reached closer agreement on Germany and Austria.

The US and British positions on the German and Austrian problems are practically parallel. France has been drawn into closer accord since the Moscow Conference by participation in the European recovery program and by the elimination of the Communists from the French Government. Even though deep-rooted concern over security makes the French position on Germany different from that of the US and the UK, and although the French are not completely reconciled to the Anglo-American program for raising the level of German industry, France will undoubtedly modify its position in the interest of Western unity if the USSR remains inflexible at the London Conference. If there is such an outcome, the French can be expected to merge their zone with the US-UK Zones and to accept a higher level of industry for Germany in return for adequate security guarantees (such as an international control program for the Ruhr and Rhineland) and for assurances of sufficient coal and coke.

Fundamental Soviet objectives at the London meeting of the CFM will undoubtedly be basically the same as those the USSR pursued at the Moscow Conference. At Moscow, it became evident that the USSR seeks to communize Germany as an essential step in a plan to extend Communist control over all Europe. To carry out this objective, the USSR demanded a share in the control of the Ruhr, a centralized government of the Weimar type which could easily be scuttled, the payment of reparations from current production (which would have forced the US and the UK to bear much

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of the financial burden), and freedom for trade unions and "democratic" parties to organize in all zones. When the USSR was unable to obtain these demands, the Kremlin directed its efforts toward keeping the Soviet Zone in Germany economically sealed off from Western Europe. Such a policy was designed to reduce western Germany to a social and economic morass and was supported by the conviction that the US would inevitably have a severe depression which would force the abandonment of European commitments.

Since the Moscow Conference, however, major developments have occurred which will hinder the USSR in the attainment of its objectives. Chief of these developments has been the inception and drawing up of the European recovery program. Nearly as significant, however, has been the stiffening in attitude toward the USSR of the western participants in the CFM. Because of these developments, the USSR now is confronted with the imminent prospect of the unification of the three western zones in Germany and a consequent improvement in their economy. Moreover, the predicted US depression has not materialized.

In recognition of this change in the situation since the Moscow Conference, the USSR may make certain offers at London which will appear, on the surface, to be new and sweeping concessions. Such concessions might take several forms: (1) some scaling down of claims to German reparations; (2) the proposed establishment of a central economic administration which will apparently promote German economic unity but would also further Soviet political objectives; (3) the offered withdrawal of all occupation troops from Germany, which would secure the removal of US forces from Europe while merely requiring Soviet units to fall back to nearby Poland. Because Austria has been placed at the bottom of the proposed Soviet agenda, probably no Austrian concessions will be offered prior to acceptance of the German concessions. For these reasons, it is likely that any concessions offered by the USSR will be made more with an eye to their propaganda value than with any serious expectation of acceptance. The offers would be carefully drawn so as to prepare the way for placing the onus of failure to reach agreement on the US and the UK.

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If these offers are made and are rejected by the Western Powers, the USSR will doubtless continue to maintain the present division of Germany, thereby denying to western Germany the possibility of exchanging its manufactures for the raw materials of eastern Germany and Eastern Europe. The USSR will thus be forced to continue a policy which was originally laid down on the hypothesis that the US would be crippled by a depression before it could make Western Europe a solvent and productive economic area.

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COMMUNIST VIOLENCE IN FRANCE AND ITALY

The outbreak of Communist-inspired strikes and violence in France and Italy is a logical development of the Communist reversion from political action to militancy. This violence represents the beginning of a militant effort to create a "revolutionary situation," rather than the beginning of an immediate revolutionary coup.

Communist policy in Germany in the last days of the Weimar Republic provides an historical example which may illuminate present Communist purposes. Then the Communists chose the Social Democratic Party as their primary target and, like the Nazis, sought to overthrow that party and to destroy normal constitutional processes. They apparently expected that when a revolutionary situation had thus been created they could dispose of the Nazis in due course. The German Republic was overthrown, as they intended, but the Communists did not profit, because the Nazis beat them at their own game.

The current Communist activity in France and Italy purports to be the spontaneous reaction of the democratic masses against the "Fascist menace," with which the established governments are either "unwilling or unable" to cope. That "menace," however, is neither immediate nor inevitable. De Gaulle is as yet unready and unwilling to accept power in France. In Italy, the elements which might constitute an authoritarian rightist grouping are even more unorganized and unprepared.

Although the Communists' direct attack is against real or supposed Fascists, their actual, though indirect, purpose is to discredit constitutional government by demonstrating its inability to maintain order and by destroying the order and confidence essential to economic recovery. The Communists know well that, if they succeed, the immediate political benefit will accrue to the authoritarian Right, rather than to themselves, and that, if the Right were to come to power, its first endeavor would be to suppress them. They incur this risk because of the overriding necessity to defeat the European recovery program at any cost and in the expectation that the Right, if forced to power prematurely, will prove incapable

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of overcoming them in the revolutionary situation thus created. They realize that they could more readily arouse a democratic mass resistance to an extra-constitutional, fascistic regime than they could arouse the masses against a constitutional and democratic government. Thus, in pursuing their present course, the Communists themselves recognize that accession of the authoritarian Right (as typified by De Gaulle) to power is less dangerous to them (or rather to Soviet interests) than would be success by the constitutional governments of France and Italy, aided by the European recovery program, in bringing about a degree of economic recovery and consequent political stability.

So far the Communist program has actually been of some benefit to the constitutional authorities in Italy and France. De Gasperi's response has been firm and vigorous. He has shown that the relationship of his Government to the United States is not comparable to the servility of the Communists toward Moscow; that the result of Communist disorders may be to deprive the Italian people of the bread which he could otherwise be sure of obtaining from the US. The net effect has been to cause Italians to rally to the Government as the representative of law and order and of the best hope for US aid. Similarly, in France, the Socialist-led Government has been enabled to dramatize itself as being as much opposed to Communism as is De Gaulle and as being the defender of constitutional republicanism against both Communism and Gaullism.

If the constitutional regimes in France and Italy are able to meet the Communist challenge firmly and effectively, if they can maintain a reasonable degree of order and, aided by the recovery program, bring about some economic improvement, they will survive the threat from the Right as well as that from the Left. Just as the Communists require a Fascist menace, so De Gaulle (for example) requires a Communist menace and a general sense that the constitutional regime is incapable of meeting it. Given a successful maintenance of order and some economic recovery, there would be no need for a Gaullist solution which, to most Frenchmen, is a choice of desperation. But if the constitutional governments in France and Italy do prove incapable of coping with the Communist

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campaign of strikes and disorders, the French and Italians would turn to the authoritarian Right for a forceful solution. In France, the accession of De Gaulle would become inevitable. In Italy, where the Right is still disorganized and leaderless, the issue would be in considerable doubt.

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TOP SECRET**THE PALESTINE ISSUE AT THE UN**

The plan to partition Palestine into separate Arab and Jewish states probably will not receive the necessary two-thirds majority in the UN General Assembly. Fifteen delegations have indicated that they will oppose the partition plan; seven will abstain from voting. It is almost certain that of the remaining thirty-five nations, a number sufficient to defeat partition will either vote against it or abstain from voting. (The plan thus could be defeated by two additional opposition votes, by one additional opposition vote and three more abstentions, or by six additional abstentions.)

If partition is defeated, the GA will then vote on another plan: to establish in Palestine a unitary state with a large degree of autonomy for both the Arabs and the Jews. Because controversy in the GA over Palestine has been centered around the partition issue, it is impossible to predict the fate of the less-publicized, Arab-supported scheme for a unitary state. The defeat of partition might persuade a substantial number of states not directly involved in the Near East to vote for some form of unitary state--particularly in view of probable Arab concessions on such issues as immigration--on the theory that any solution is better than no solution at all. The votes of these states, together with those of the solid Arab bloc, might be sufficient to obtain the necessary two-thirds majority.

If neither of the two plans is accepted and the UK fulfills its pledge to withdraw from Palestine by August 1948, conditions in Palestine will become chaotic. Bitter and sustained fighting between the two groups will ensue. The US may then be compelled, because of aroused Zionist sympathy on the part of the US public, to take an active part in the struggle.

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TOP SECRET**INCREASED YUGOSLAV TRADE WITH THE WEST**

Confronted by the possible failure of its five-year plan, the Yugoslav Government has temporarily abandoned some aspects of the plan by relaxing price and wage controls and by seeking to develop commercial relations with the US.

The inability of the Yugoslav economy to meet the quotas of the five-year plan was the result of miscalculations concerning the possibility of obtaining: (1) greater imports of industrial equipment from the USSR, as well as early reparations (particularly from Italy and Germany); (2) post-UNRRA aid; (3) larger grain receipts from the peasants; and (4) lower costs in maintaining large armed forces. To counteract these miscalculations, the Government is allowing peasants to sell their products in the open market and has increased workers' wages. These measures, although temporarily reducing popular opposition to the Government's economic program, have stimulated inflation because the country still lacks sufficient consumer goods for its needs.

Because the USSR has failed to supply the industrial and transport equipment necessary for the fulfillment of the original five-year plan, the Government now appears anxious to negotiate for the purchase of such equipment from the US. This new economic "reasonableness" on the part of the Yugoslav Government does not reflect a basic change in that Government's political philosophy, but is merely a temporary expedient motivated by practical, rather than political, considerations. This modified policy does indicate, however, that the USSR is not averse to trade between a Satellite and the West, providing that such trade serves to increase the industrial and war potential of that Satellite.

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PROGRESS OF THE UN GOOD OFFICES COMMITTEE IN INDONESIA

The recently-organized UN Security Council's Good Offices Committee (GOC) has encountered formidable obstacles in the execution of its two major objectives: (1) to carry out the Security Council's cease-fire order; and (2) to create "an atmosphere conducive to renewed political negotiations" between the Netherlands and the Indonesian Republic.

Achievement of the first objective has been seriously impaired by the announced Dutch intention to resume police actions in order to evacuate populations of villages allegedly threatened by Republican forces. The GOC has turned down a Dutch request to send observers to cover these actions, on the grounds that the GOC might thereby appear to sanction continued unilateral Dutch action and thus destroy the basis for current cease-fire talks.

GOC efforts to reopen political negotiations are similarly hampered by the fact that the expressed views of the parties to the dispute remain widely divergent. In preliminary talks with US representatives on the GOC, Republican officials have made it clear that they still expect immediate, unqualified political independence rather than to gain independence gradually under the United States of Indonesia (USI) as envisioned by the Dutch in the Linggadjati Agreement. Official Dutch opinion continues to regard the Republican leaders as incompetent and untrustworthy, and Dutch authorities continue to encourage the creation of pro-Dutch states within former Republican territory.

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TRENDS IN BRIEF

WESTERN EUROPE

French non-Communist elements in the CGT are organizing in an effort to reduce or neutralize the influence of the CGT Communist leaders. Growing dissatisfaction among French workers with Communist direction of the CGT may eventually create an open break within the CGT, with consequent lessening of Communist control over French labor (see page 1).

Although De Gasperi is now under pressure from both the Right and the Left to broaden the base of his Government, the Premier will probably retain his present Cabinet which is based largely on Christian Democratic-Rightist parliamentary collaboration. If he is forced to extend the representation of his Cabinet, De Gasperi will undoubtedly prefer the inclusion of the non-Communist Left to that of the various Rightist groups. However, the present anti-Communist trend in Italy has so increased the importance of the Rightists that a perceptible economic recovery in Italy and the formation of a strong Rightist bloc, possibly under the leadership of Corbino, might force De Gasperi's hand.

Prime Minister Attlee's removal of Hugh Dalton from the position of UK Chancellor of the Exchequer will resolve a conflict between Sir Stafford Cripps and Dalton over methods of dealing with the UK's economic problems. Although the appointment of Cripps, already Minister of Economic Affairs, to Dalton's place will insure unified economic leadership, the circumstances surrounding Dalton's removal will cost the Government and the Labor Party heavily in prestige and confidence. This affair, coming shortly after the recent expulsion of one Labor MP for dishonorable conduct and the censure of another MP, will be exploited by the Conservatives. Labor's large parliamentary majority and the reluctance of the Conservatives to seek office just before an anticipated hard winter will probably permit the Government to weather these blows, but its prospects of remaining in power until 1950 (the constitutional limit) are reduced.

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EASTERN EUROPE

The October Revolution celebration in Moscow was marked by efforts to justify hardship, enforce discipline, and prepare the people for Stalin's death (see page 2).

Attacks on the US and UK during the trial of Maniu, Rumanian National Peasant leader, indicate that the furtherance of Communist control and the destruction of the political opposition were only secondary Communist aims in staging the trial at this time. The Communists were principally concerned with eliminating US-UK influence in Rumania by demonstrating to Rumanians the consequences of association with representatives of the Western Powers.

The Communists in Poland, who have consolidated their political position following Mikolajczyk's flight by taking control of the Peasant Parties, can only maintain this position by intensifying police controls. Attempts to weaken the Roman Catholic Church and to industrialize the economy (next steps on the Communist program) will meet with strong opposition from the Polish people who will not be easily persuaded to give up the Church voluntarily or to make further sacrifices in their standard of living in order to promote the Communist-sponsored industrialization program.

NEAR EAST-AFRICA

The question of enforcing the partition of Palestine remains the chief difficulty facing the UN sub-committee on Palestine. The UK has stated that it will not use British troops to impose any settlement which is unacceptable to the Jews or Arabs and that (previous to the British withdrawal by 1 August 1948) the troops will be responsible for the maintenance of order only in those areas which they occupy. Thus, unless the General Assembly is prepared to organize an international police force to replace UK troops (which the GA appears reluctant to do), any partition plan recommended by the UN has little chance of successful implementation.

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The size of Turkey's armed forces will soon be decreased by the release of about 150,000 men and may be kept at reduced strength indefinitely. Present indications are that the Turkish Government may decide that Turkey is not in danger of imminent attack. Such a reduction would not only lessen the burden of heavy national defense appropriations but would also insure--by the release of manpower--an increase in the national income through economic production.

Ratification of the Trans-Arabian Pipeline Convention by the Syrian Chamber has again been indefinitely postponed. Public resentment against the US is strong because of US support for the partition of Palestine and because of Socony Vacuum's unheralded cut in petroleum allocations to Syria. The Syrians consider that the latter step is connected with the US stand on Palestine.

Iranian opposition to ratification of US arms credit appears to be growing. This opposition stems from such considerations as: (1) fear of strong Soviet reaction; (2) the need to conserve foreign exchange for economic and social development; and (3) a desire to obtain more favorable terms from the US, including repayment in Iranian currency instead of dollars. Although many Iranian officials would welcome an outright gift from the US of the \$25 million of supplies, as sought by Prime Minister Qavam, some Iranians are reluctant to place Iran in exactly the same category as Greece and Turkey lest such action increase Soviet hostility.

FAR EAST

The recent coup in Siam has brought to power a royalist-military regime which will negate Siam's progress toward democratic government and improved international relations (see page 3).

Australia's increasingly pro-Indonesian attitude in the Dutch-Indonesian dispute does not seem to result primarily from pressure by the Australian Communist Party but from a growing awareness that Australia's security in the Pacific depends on a practical course of action which will not alienate the Indonesians.

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WESTERN HEMISPHERE

Panama will probably reject the minimum US requirements regarding a defense-sites agreement as a result of Ambassador Vallarino's decision to run for president with the support of Harmodio Arias (see page 6).

A rapprochement between Argentina and the Soviet Union is highly improbable despite recent speculation to the contrary. Instead, the available evidence suggests that: (1) the Peron regime is preparing for drastic anti-Communist action following the March 1948 elections; and (2) even Argentine officials expect this action to lead to the rupture of relations both with the Soviet Union and the Satellite States.

Peron has emphasized his intention to maintain relations with the Soviet Union for the present. On the other hand, he is known to regard the Cominform as a declaration of war against the Western world and to have predicted that it will express itself within Argentina in the form of deliberate sabotage of his own Five-Year Plan.

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NON-COMMUNIST LABOR ACTIVITY IN FRANCE

Non-Communist elements in the French Confederation of Labor (CGT) are at present grouping their forces in an effort to reduce or to neutralize the influence of the CGT's Communist leaders. This movement against Communist dominance by minority elements within the CGT is significant largely because it has come from the rank and file of French labor.

Non-Communist groups within the CGT have in the past been unorganized and split by shadings of political differences. In the past year, however, these groups have begun to take definite shape and have begun to compose their political differences. Their recent tendency to join together in anti-Communist activity has clearly worried the Communist.

Although the non-Communist groups are not sufficiently strong at present to break away from the CGT, the increased sharpness of their opposition and the growing dissatisfaction among French workers (even Communist workers) with Communist direction of the CGT may lead eventually to an open break within the CGT. If such a break should occur, Communist influence in the French labor movement would be considerably reduced and Communist Party capacity to control labor activity for its own ends would be sharply curbed.

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THE SOVIET ANNIVERSARY CELEBRATION

Consistent with the current Soviet propaganda line, Soviet orators at the celebration in Moscow on 7 November of the thirtieth anniversary of the "Great October Revolution" played up international tension in order to justify increased hardship and to enforce ideological discipline at home. The harassed Soviet people were not given any immediate prospect of material improvement in their daily life. The lifting of bread rationing--promised by Stalin nearly two years ago--was not mentioned. The only significant note of comfort was a somewhat cryptic statement that the "secret of the atomic bomb has long ceased to exist."

The speakers devoted considerable attention to recalling the Party's glorious achievements in the past. The Armed Forces were urged to remain "in constant preparedness against the instigators of a new war"; the Party dedicated itself to continue the struggle against the "capitalistic countries which have no desire for cooperation." Foreign Minister Molotov's speech contained several hints of concern over native ideological loyalty. "Not all of our people," he said, "have rid themselves of their servility and obsequiousness to the West and to capitalist culture.... Without getting rid of these disgraceful survivals, one cannot be a real Soviet citizen."

A striking feature of the entire celebration was the relative lack of prominence accorded Stalin. Not only was he absent (as was the case in 1946) but his name received only scant attention in the numerous posters bearing the officially-prescribed slogans of the day. While he was frequently quoted by several of the speakers, there were practically no laudatory tributes of the sort usually paid him. Although Stalin's health may in fact have forced him to take a less active role in Soviet affairs, it is equally possible that the Kremlin is making a deliberate effort to accustom the people to his absence on such occasions. By gradually deemphasizing Stalin's personal appeal and stressing his symbolic value, the Kremlin may be preparing its subjects for Stalin's death.

TOP SECRET**THE SIGNIFICANCE OF THE SIAMESE COUP D'ETAT**

The ousting of the government of Premier Thamrong on 9 November by a military coup has resulted in the return to power of the former pro-Japanese dictator of Siam, Marshal Phibul Songgram, and of the parliamentary opposition to the government of Thamrong and Pridi. By its forceful method of establishment and by its enhancement of royal power, the new regime represents a reversal of the previous trend toward democratic, elected government.

The elimination of official corruption and the alleviation of the high cost of living were given by the leaders of the coup as the justification for their action. While these problems were doubtless important in inspiring this step, additional motives were probably responsible for the coup. The army, always the most nationalistic group in Siamese politics, has often attacked Thamrong's policy as responsible for: (1) the retrocession to France of border territories taken by the army in 1940-41; (2) the rise of Communism in Siam; and (3) the growth of influence in Siamese affairs of China and of the large Chinese minority in Siam. Certain elements in the army, together with some members of the Siamese political opposition, apparently became convinced that parliamentary methods were inadequate to oust Thamrong.

The group responsible for the coup is believed to be rather small and composed of relatively-unknown military and civilian political figures. Lacking outstanding leaders within its membership, the group apparently first secured the leadership of General Adul, Commander in Chief of the Siamese Army, whose opposition to official corruption was well known. When Adul attempted to halt the coup in the first few hours of its development, the group then turned to Marshal Phibul who had sought a chance to return to politics since early in 1947. Under Phibul's leadership, the original group has merged with a group of prominent Royalists, probably in an effort to present an appearance of legitimacy through seeming to support the royal dynasty.

The Siamese Parliament and all political parties have been dissolved by the coup movement and a new constitution has been

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promulgated. However, the difficulties encountered in the formation of a provisional cabinet by the leader of the civilian political group, Khuang Abhaiwong, indicate that there is considerable apprehension within the coup group regarding its stability and future tenure of power. In view of Phibul's harsh treatment of the princes during his rule from 1938 to 1944, the Royalists in the group are unlikely to accept his leadership for long. Civilian elements in the group recall Phibul's dictatorial regime and fear, consequently, that Phibul will not permit the Abhaiwong cabinet to exercise real power but will use it only as a democratic front. If Phibul does not give the civilian group real power, many civilian leaders may resign, thus causing the fall of the Abhaiwong cabinet and permitting its replacement by a cabinet headed by Phibul.

In addition to the disruptive forces present within the coup group, the stability of the new regime is made doubtful by the possibility of a counter coup led by Elder Statesman Pridi and supported by the Free Thai movement. Such a coup might be also enforced by elements in the Siamese Navy, which has always aligned itself with civilian groups against the army. The strength of a counter-coup movement might be augmented, if Phibul takes direct control, by disaffected civilians of the present coup group.

The policies of the new regime under a cabinet headed by Abhaiwong are expected to be relatively moderate in order to avoid antagonizing the US and the UK whose financial and economic aid will be increasingly valuable to a government pledged to alleviate the cost of living. Certain measures restricting Chinese economic and social activities may be revived or inaugurated in a reflection of the anti-Chinese bias of the Siamese Army. Such measures will incur the resentment of the Chinese National Government and the resistance of powerful Chinese entrepreneurs and middlemen vital to Siam's rice economy. If Phibul assumes direct authority, after foreign apprehensions regarding the new regime have been allayed, anti-foreign and ultra-nationalist policies may be instituted which will adversely affect US and UK economic interests in Siam. Phibul's vigorous suppression of Communism during his wartime administration may foreshadow new anti-Communist measures which will impair Siam's relations with the USSR and may even affect Siam's

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position in the UN. The Soviet Union opposed Siam's admission to the UN and refused to entertain diplomatic relations until the Siamese Government repealed the anti-Communist legislation of 1933. The forceful establishment of a royalist-military regime in Siam will lead to an extended period of instability which may negate the progress Siam made under civilian administration toward rehabilitation, democratic government, and improved international relations.

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THE DEFENSE-SITES ISSUE IN PANAMANIAN POLITICS

Panamanian political developments have introduced new complications into the protracted US negotiations for a defense-sites agreement. As a result, Panama is now expected to reject the most recent US proposal for a ten-year US lease on the Rio Hato base with a ten-year renewal option.

The terms regarding Rio Hato have become the principal obstacle to an agreement in large part because of a domestic political situation created primarily by ex-President Harmodio Arias. Arias has recently put himself forward as the spokesman for those who oppose some US "demands" and has described the minimum US requirements with respect to the base as "unreasonable and incompatible with the letter and spirit of Article X of the Treaty of 1936." He insists that Panama grant only a five-year lease. Harmodio Arias is also known to have informed the Panamanian ambassador in Washington (J.J. Vallarino) that: (1) Arnulfo Arias, Harmodio's openly anti-US brother, will soon announce his candidacy for the presidency; and (2) he himself, together with a substantial majority of the Liberal Reform faction within the present Jimenez administration, is prepared to support Vallarino for the presidency. Vallarino has now consented to become a candidate, and there is reason to believe that in agreeing he acquiesced in Harmodio Arias' views on the base question. These views, if they became Panamanian policy, would render highly improbable a favorable solution of the bases problem prior to the Panamanian elections in May 1948.

The two principal candidates in the 1948 elections will be Arnulfo Arias and J.J. Vallarino. Vallarino will probably be elected since Arnulfo Arias cannot win without Harmodio Arias' support. Panamanian Foreign Minister Alfaro, who is also the Panamanian Delegate to the UN, is not likely, meanwhile, to adopt any position in the defense-sites negotiations that would incur Vallarino's displeasure. Although President Jimenez will probably not support any candidate, his position in the defense-site negotiations will be circumscribed by the public knowledge that both the leading presidential candidates are opposed to the US terms. Jimenez can, however, be counted on to permit the US to occupy the bases, without specific authorization in Panamanian law, until the elections.

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TRENDS IN BRIEF

GENERAL

Soviet intentions in Palestine may be illuminated by similarities between the December 1945 Moscow Agreement on Korea and the recent Soviet proposals for setting-up separate Jewish and Arab states. The Korean pact provided that a joint US-USSR commission consult with "democratic parties and social organizations" in setting-up a provisional "democratic government." The Soviet proposal on Palestine suggests that during a transitional period the Security Council administer the country through a special commission. This commission is to elect a provisional council of government for each part of Palestine after consultation with "democratic parties and organizations," just as proposed for Korea. The adoption of the Soviet proposal would afford the USSR new opportunities to delay action through interminable bickering over the question of what parties and organizations are truly "democratic," just as this question has delayed solution of the Korean problem.

The decision of the UK to return the Italian battleship VITTORIO VENETO, despite the apprehensions of the Admiralty and objections within the Cabinet, reflects Bevin's estimate that Italy is not likely to come under Communist domination, at least during the period required to complete the scrapping of the ship. Because the UK, like Italy, is very short of steel scrap, Bevin's decision also indicates awareness of the need for the UK to improve its relations with the present Italian Government. Anglo-Italian relations have not been good since the war ended, and they became sharply worse after the UK dollar crisis forced abrupt suspension of sterling convertibility arrangements on which Italy was counting heavily to reinforce its dollar position. In another gesture toward improving the relationship, Bevin voiced his hope that the UK will be able to begin shipping coal to Italy after next March.

WESTERN EUROPE

Recent UK municipal elections, which reveal a very sharp swing away from the Labor Government, indicate that the Government has failed to convince the electorate that its increasingly

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austere measures are necessary and suggest that a general election in 1948 is a possibility (see page 1).

Indications that the Cominform is directing the policy of the French Communist Party along strict Soviet lines have already caused the Party to lose prestige in France and may result in severe losses of strength among labor and reduction of the party's domination of the CGT (see page 3).

Small improvements in the UK economy are appearing, although the general outlook remains beclouded. It now appears likely that the year's steel production will exceed the planned target (14 million tons) and that the 1947 coal target of 200 million tons will be missed by only about 2%. If production is maintained at recent levels, coal stocks will not only be sufficient to avoid any such breakdown as occurred last winter, but should also guarantee that essential industries will get their full requirements during this winter. Small production gains are already being registered in several manufacturing industries in the "most essential" category, even though the Government's labor direction program is just getting started.

Reverses suffered in three by-elections in Eire last week reveal a trend away from Prime Minister De Valera and his Fianna Fail Party. It is doubtful, however, that popular discontent will be strong enough to remove De Valera from power in the coming general election which he has now announced for "early next year." De Valera's timing of the election undoubtedly reflects his calculations that the Government will have regained its prestige during the winter months.

Premier De Gasperi's attempts to stabilize his Government by the inclusion of representatives of the anti-Communist Left are making little progress largely because of Leftist fears that such action would split the Left. If, however, the moderate Leftists do not enter the Government while they still hold appreciable parliamentary power, aid from abroad may so improve the Italian economic situation as to remove the Left's present basis for entering the Government. If the De Gasperi Cabinet lasts through the winter

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without inclusion of the moderate Left, the Premier's present reliance on Center-Right collaboration will probably receive popular support at the polls next spring. A proposed unification of Rightists, similar to De Gaulle's RPF, may further strengthen the present collaboration.

Although the recent drop in wholesale prices in north Italy has been influenced by the seasonal increase in production, the downward trend has been caused mainly by the Government's credit restrictions which have forced manufacturers and wholesalers to turn hoarded goods into cash to meet current obligations. These credit restrictions will continue to have a restraining effect on prices but will not prevent some increase when the previously hoarded goods have been consumed. A reversal of the present deflationary trend can be expected unless further measures are taken and substantial imports are assured.

EASTERN EUROPE

An intensive Soviet campaign to gain control in Greece is indicated by reports of increased military aid to Yugoslavia and Bulgaria and of plans for the imminent formation of a "Balkan Army" (see page 4).

Rumors of the imminent announcement of a Balkan Federation have gained new impetus as a result of the recent meeting of Yugoslav, Bulgarian, Rumanian, and Hungarian Communist leaders in Banlok (western Rumania). The USSR, however, has little to gain from the establishment of a formal federation at this time. More probably, the meeting was called in order to include Rumania and Hungary in a series of interlocking mutual assistance pacts with Yugoslavia and Bulgaria, supplementary to the cultural agreements already uniting the four countries. The Communist leaders of these countries can be expected to hold further meetings in order to plan the joint execution of the Soviet program for the Danubian area.

The Communists are exploiting Czechoslovakia's severe food shortage by emphasizing the promise of the USSR to provide adequate supplies of wheat this winter and by charging that the

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inefficiency of food administrators in Slovakia requires their resignation. However, unless the USSR makes early delivery of the promised grain, the Communists' current propaganda campaign may boomerang. Popular discontent with the food shortage, particularly in Slovakia, may then be directed against the Communists for their false promises of Soviet aid.

Zoltan Pfeiffer's flight from Hungary and the imminent dissolution of his Independence Party are indicative of Communist determination to hasten the elimination of all opposition parties. As in other Satellite countries, the Hungarian Communists have resorted to the familiar strategy of charging their opponents with espionage. Barankovics' Democratic People's Party will probably be the next group to be caught in the ever-widening Communist-designated "spy rings."

NEAR EAST-AFRICA

A potential threat to Arab political unity arises from the long-standing rivalry of two powerful groups in the Syrian district of Jebel Druze, which was brought to a head by recent fraudulent elections. Unless the Syrian Government can control the conflict, which has already reached the point of open hostilities, disorders may spread throughout the country, thus: (1) threatening the internal stability of Syria; (2) hampering Syrian military cooperation with the other Arab states for possible action in Palestine; and (3) possibly leading to intervention by other Arab states in support of one of the Druze groups.

The recent guerrilla attack on the Greek town of Metsovo (a key town on communication lines in central Greece) was the strongest and most prolonged yet undertaken by the guerrillas. Following two weeks of fighting, marked by the successful employment of standard tactics rather than the usual guerrilla tactics, the guerrilla forces are withdrawing northward with little pressure from the Greek Army. It seems likely that the main purpose of the attack was to draw Greek Army forces from the important towns of Ioannina and Florina, possibly in preparation for large-scale guerrilla action in those areas.

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FAR EAST

Although Nationalist forces have managed to retain their Manchurian strongholds against the sixth Chinese Communist offensive, the Communists still possess strategic advantage in the over-all civil war (see page 6).

Chinese Nationalist air power in Manchuria has proved the decisive factor in the successful Nationalist defense of Kirin, which has been under heavy attack by Chinese Communist forces reportedly outnumbering the defenders six to one. In the over-all civil war, however, Nationalist air power will probably be more of a deterrent than a decisive factor because of Communist reliance on mobile warfare and guerrilla tactics and because of the absence of vital strategic targets within Communist territory.

Mounting anti-US sentiment among the Chinese Communists has become increasingly evident in recent weeks. This increase in anti-US feeling may be motivated by concern that: (1) the US may soon give substantial aid to the National Government, thus enabling the Government to carry on a more effective anti-Communist campaign; and (2) the US may insist on reforms within the National Government as a prerequisite to such aid, thus removing one of the Communists' greatest supports: the corruption and inefficiency of the National Government.

The political situation in Burma is again becoming tense as Hindu-Moslem and Indo-Burmese friction apparently continues to increase. The Karen situation remains explosive, and other ethnic groups have begun to express their discontent with present constitutional arrangements. Meanwhile, potential opposition leaders are still being held in "protective custody" without trial.

The Australian Labor Government's bank nationalization plan has precipitated one of the bitterest political struggles in the country's history. While the Government has a sufficient parliamentary majority to obtain approval of the plan at the current session, the Opposition is expected to delay its implementation by legal action. The nationalization issue may thereby become decisive in determining the Labor Government's future.

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Increasing political unrest in the Philippines is likely to follow the 11 November elections which are expected to increase the substantial majority enjoyed by President Roxas' Liberal Party. The elections presumably will eliminate effective formal opposition and thus remove: (1) any restraint upon the Government's oppressive measures in enforcing law and order; and (2) any hope of correcting the existing widespread governmental corruption. Consequently, disturbances, many of them inspired by dissident, lawless left-wing elements, may be expected to increase.

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TOP SECRET**IMPLICATIONS OF THE UK ELECTIONS**

The recent UK municipal elections reveal a reversing political trend so sharp as to have surprised both the Conservatives, who expected more modest gains, and the Laborites, who expected relatively smaller losses. Because a broad cross-section of the electorate expressed itself, and because the local elections were bitterly fought on national issues (except in Scotland), the Labor Government can no longer assume that it holds the sweeping popular mandate it won in 1945. It is possible that the Government, as the Conservatives assert, no longer possesses majority support.

The Conservative Party has demanded an immediate general election but, as Conservative leaders must have expected, the Labor Party has rejected the demand. Labor leaders have attempted to minimize the significance of the defeat. Party spokesmen have also re-affirmed Labor policies, but probably Party policies will be re-examined for the possibility of softening controversial issues as the Government takes account of popular sentiment. Meanwhile, in direct response to the Conservatives, the Labor Party points to its unprecedented success in winning every by-election to the House of Commons during the past two years. In this connection, however, it is significant that recent by-elections have shown sharply-reduced majorities for Labor and, moreover, have taken place in constituencies not representative of the nation as a whole.

The trend indicated in the municipal elections is not to be taken as a move toward the Right and toward free-enterprise capitalism, nor as a move against limited socialism and the nationalizations accomplished so far, but rather as a vote revealing, primarily, dissatisfaction with the Government which is responsible for shortages, restrictions, and steadily deteriorating living conditions. The surprising size of the municipal vote indicates the discontent of a large number of voters who are usually apathetic to local elections. It is apparent that what the Government has thus far failed to do is to convince the electorate that the unpopular measures have

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been necessary to meet the crisis, and that any government would have had to impose such hardships. It is probably too late now for the Labor Party to remedy this failure in leadership.

With the full force of the new, super-austerity regulations still to be felt, the Government's position will probably not be improved much by small successes in the economic field. Although Labor Party leaders have proclaimed no general election until 1950, the constitutional date, it is possible that increasing public pressures may force the Government to call an election in 1948. Five parliamentary by-elections during the next two months and several more municipal elections in December and March will reveal more fully the political temper of the country. Meanwhile, the Conservative Party--which probably prefers to leave responsibility in Labor's hands during the forthcoming winter, despite its demands for an immediate general election--will probably continue its attempts to attract liberal and independent voters by capitalizing upon their discontent.

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NEW COMMUNIST POLICY IN FRANCE

The increased subservience of the French Communist Party to the directives of the Kremlin has been made apparent by recent statements of Party Leaders Thorez and Duclos that French Communist policy would follow the line laid down by the Cominform.

These statements indicate that the French Communist Party will now alter its tactics from those of a "loyal opposition," attempting by political means to share in the Government, to those of an out-and-out opposition group attempting to take over control of the Government. Consistent with the shift in the Communist line from "anti-Fascism" to "anti-Americanism," all pretense of patriotism, except that of defending France against "American imperialism," probably will be dropped. To defend the nation against that "danger," however, the Communists are calling for labor and "democrats" to rally to the Communist Party and are attempting to organize the workers in towns, villages, and factories into "committees for the defense of the Republic."

The public utterances of Thorez and Duclos and the Party's activities in support of the new policy are expected to have a dual result: a decline in Party membership and support, as in 1939; and a weakening of Communist domination of the General Confederation of Labor (CGT). Already, some fellow-travellers and a few members of the Party are showing opposition to Thorez's plans. If this trend continues, the Party will be compelled to rely only on its hard core of militants. The open subornation of the French Communists by Moscow will lead many Socialist and labor leaders who have not hitherto strongly opposed Communist leaders of the CGT to work actively against them. If the Communists should lose control of the CGT, they will have lost their most powerful weapon with which to attack the Government and the Damoclean threat of a general strike will be removed.

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TOP SECRET**SOVIET PREPARATIONS TO GAIN CONTROL IN GREECE**

Reports of recent military activity in Yugoslavia and Bulgaria indicate that the USSR, temporarily blocked in Western Europe, may have begun a more intensive campaign to gain control of Greece. Besides making preparations for increased Yugoslav and Bulgarian assistance to the guerrillas in Greece, the USSR appears to be building those two countries as the dominant military powers in South-eastern Europe. Full development of the Soviet plans is not expected, however, until after the London meeting of the CFM.

Increased Soviet military aid to Yugoslavia and Bulgaria is indicated by reports that: (1) Soviet arms and munitions are being sent to Yugoslavia and Bulgaria, both overland from Austria and by water through Black Sea ports; (2) the USSR has transferred several naval vessels to the Bulgarian Navy; and (3) extensive stockpiles of war supplies are being built up along the Greek and Turkish borders.

In addition to preparations for greater aid to the Satellites, Communist plans to increase direct military assistance to the Greek guerrillas are revealed by recently available reports of secret military clauses agreed upon at the Bled conference last August. According to these reports, a General Staff of the Central Balkan Council has been established under the chairmanship of Admiral Rodionov, former Soviet Ambassador to Greece. His staff will reportedly include Yugoslav, Bulgarian, Albanian, Rumanian, Hungarian, Czechoslovak and Greek-guerrilla officers who will assist in the operation of an International Brigade, or a "Balkan Army," consisting primarily of Greek, Yugoslav, Albanian, and Bulgarian personnel. Moreover, recent indications point to the imminent formation of a civil government in northern Greece. Such a development would permit more overt utilization of the military forces being organized in Yugoslavia and Bulgaria.

Despite these intensive military preparations and the failure of the USSR to begin withdrawal of its troops from Bulgaria (scheduled under the peace treaty to be completed by 15 December), the USSR probably does not intend at present to participate in overt military operations in Greece. Instead, the USSR is preparing to meet any

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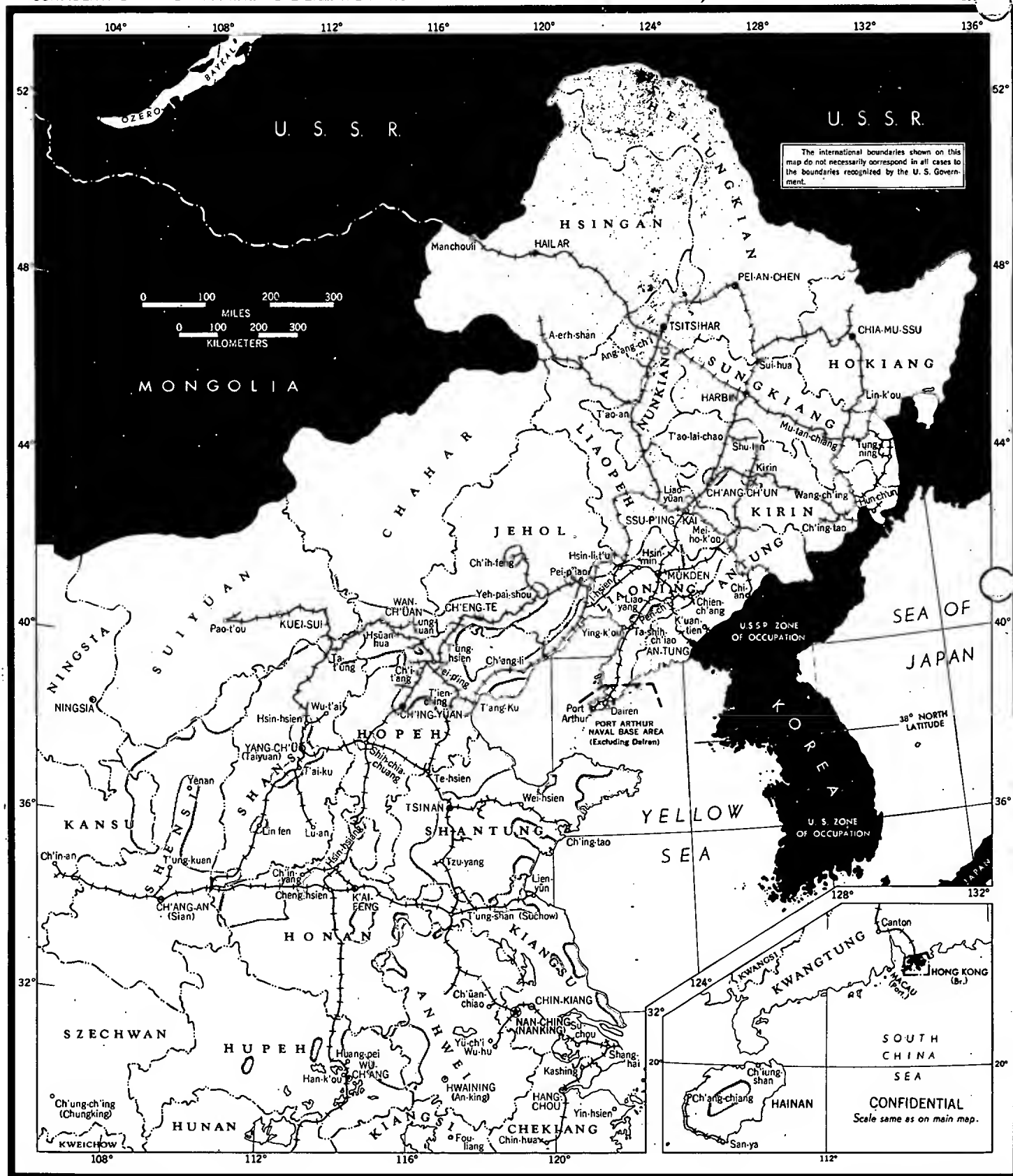
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developments arising from the London meeting of the CFM. Meanwhile, these activities not only increase the Satellite potential for clandestine military aid to the Greek guerrillas, but also constitute an effective weapon in the war of nerves against the Greek Government. Finally, these actions serve to strengthen Yugoslavia and Bulgaria as effective defensive buffers against any "imperialist" aggression from the south.

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The international boundaries shown on this map do not necessarily correspond in all cases to the boundaries recognized by the U. S. Government.



Map Branch, CIA
10862 November 1947

U. S. Government Printing Office

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THE MILITARY SITUATION IN CHINA

Although the sixth Chinese Communist offensive in Manchuria has failed to dislodge the Nationalists from any of the large cities they previously controlled, the strategic initiative in the Chinese civil war remains with the Communists. The latter have inflicted heavy losses on the Nationalist forces in Manchuria and have recently extended their military operations into Central China, south of the east-west Lung-hai railroad. The Communist forces appear to have the capability of carrying the war into other areas of Central and South China, where National Government defenses have been weakened by the movement of Nationalist troops to the north.

At the termination of the war against Japan, the National Government possessed the best-trained and-equipped native army in the history of modern China. However, in the two ensuing years of civil war, the Chinese Communist forces have strikingly demonstrated their proficiency in waging effective guerrilla warfare. They have displayed an ability to capitalize on such prominent Nationalist weaknesses as a tendency to overestimate Nationalist operational capabilities, corrupt and professionally incompetent leadership, and the lack of supporting communications adequate to bring operational plans to a successful conclusion.

From the beginning of the civil war, long-range Nationalist objectives have included: (1) reoccupation of Manchuria; and (2) control of the area south of the Lung-hai railroad, to be followed by the opening of the Tientsin-Nanking (Tsin-pu) railroad. To spearhead this offensive, the Nationalists initially employed 39 divisions trained and equipped by the US. However, the outstanding ability of the Communists to avoid pitched battles, to draw the Nationalists into extended and untenable positions, and to infiltrate between advancing Nationalist armies and establish operational areas in the Nationalist rear, enabled the Communists to nullify any progress made by the Nationalist armies and to reduce the original 39 divisions by one-third. Moreover, the Communists have rendered the Nationalist salient in Manchuria extremely vulnerable, re-established their bases in the once "pacified" areas south of the Lung-hai railroad, and successfully resisted Nationalist attempts to open the Tsin-pu railroad.

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In the future, as major Nationalist-held areas and units become isolated from each other and from their bases of supply, Nationalist military strength may be expected to deteriorate at an increasing pace. Continuation of this process--which will inevitably be accompanied by further political and economic deterioration--may lead within a year to decisive military successes for the Chinese Communists and to the National Government's disintegration.

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TRENDS IN BRIEF

GENERAL

The ICAO Conference at Geneva may represent the final opportunity to organize world air traffic under a multilateral air treaty (see page 1).

Soviet intentions to forestall solution of the Korean problem by UNGA are clearly indicated by the first moves of the Soviet UN Delegation (see page 3).

Future US-Satellite disputes over peace treaty interpretations may be foreshadowed by the continued refusal of the Hungarian Government to accept the US contention that US military aircraft are entitled to fly into Hungary in support of the activities of the US representatives on the Allied Control Commission during the 90-day withdrawal period provided in the peace treaty. Hungary insists that it has regained full sovereignty and that the treaty contains no qualifications confirming the US position which holds that Hungarian permits for such flights are unnecessary.

Yugoslavian efforts to expand airline operations beyond Soviet-controlled areas are continuing. The latest evidence is: (1) a Yugoslav application to the Office of US Military Government, Germany, for permission to make a traffic stop at Munich on a route to Paris; and (2) current Swiss-Yugoslav air negotiations. In designating the new Yugoslav airline JAT (supposedly entirely owned and operated by Yugoslavia) instead of the Soviet-controlled Yugoslav airline JUSTA, the Yugoslavs apparently hope to forestall US refusal for zonal overflight by an airline not really owned and controlled by Yugoslavia. Regardless of permission to fly through US occupation zones, however, the Yugoslavs can take advantage of the Italian peace treaty terms to overfly Italy into Switzerland and Western Europe.

WESTERN EUROPE

Despite Ramadier's narrow victory in the vote of confidence, France's political and economic situation continues desperate. The

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Centrist coalition Government will probably continue to be ineffective in dealing with French economic problems. If either of the two extreme groups, De Gaulle's RPF or the Communists, attempts to take power, civil war might result. Ramadier will attempt, therefore, to retain power as long as possible. He is likely to succeed for the next few weeks at least while De Gaulle and the Communists are strengthening themselves for the showdown which Frenchmen believe is inevitable.

The Communist position in Scandinavia has been weakened by the voting in recent elections. In the Danish general election on 28 October, the Communist popular vote declined 45% and the Communist Party lost 9 of its 18 parliamentary seats. The Social Democrats and the liberal parties gained at the expense of the extreme Left and Right. In nation-wide municipal elections in Norway on 20 October, Communist voting strength declined 19%. Chief factors in the Communist decline appear to be dislike of the Cominform, a widespread feeling that the Party is an instrument of Kremlin policy, and a weakening of favorable public sentiment concerning Communist resistance activities in wartime.

Returns from the Swiss national elections of 26 October indicate no radical change in the make-up of the relatively conservative Swiss National Council (House of Representatives). The gains of the middle-of-the-road Radicals at the expense of the left-of-center Socialists seem to indicate disapproval of the latter's efforts to extend State control of internal economy, while the poor showing of the Communists illustrates Switzerland's general anti-Communist feeling which was intensified just before the elections by the establishment of the Cominform.

EASTERN EUROPE

Czechoslovak industrial production and high standard of living are endangered by the present pressure to strengthen economic ties with the USSR (see page 4).

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Increased Soviet surveillance of Czechoslovak military activity may be indicated by the reported assignment of three or four Soviet air force officers to each Czechoslovak military airfield. These officers are allegedly under orders to prevent the escape of pro-Western Czechoslovak air officers, but it is more likely that they are gathering intelligence about Czech personnel, prior to a purge of "unreliable" elements from the Army and the Air Force. The presence of these officers would constitute the most overt participation by the Soviet military in Czechoslovak internal affairs since the withdrawal of Soviet troops in 1945.

The trial of Rumanian National Peasant leader Maniu is following the usual pattern of Communist-conducted treason trials in Eastern Europe, and Maniu's conviction on specious charges is almost a certainty. Besides making use of a packed court, forced confessions, and intimidation of witnesses, the Communists have terrorized many prominent Bucharest lawyers who had expressed a desire to defend Maniu.

The disappearance of Polish Peasant Party leader Mikolajczyk, by making ineffective the last opposition party in Poland, will enable the Polish Communists to concentrate their efforts upon the abolition of anti-Communist elements in the Polish Socialist Party. Mikolajczyk's disappearance made it possible for the pro-government faction of his Polish Peasant Party (PSL) to seize control of the party and to take over the PSL newspaper, thus leaving no legal opposition newspaper in Poland. The PSL will now support the Government bloc and eventually may merge with the existing government-sponsored Peasant Party (SL).

Right-wing Socialists appear to be the next Communist target in Poland. Communist control of top Socialist leaders has been demonstrated by the strong endorsement given by those leaders to the establishment of the Cominform and by their adoption of policies scarcely distinguishable from Communist policies. This extreme pro-Communist position of the leading Socialists may force right-wing elements out of the Party if they refuse wholeheartedly to back the Communist line. Moreover, there are indications that the Communists are planning to use the Polish Socialist Party as a spearhead,

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for the formation of a left-wing Socialist International which would exclude right-wing Socialists and would cooperate with the new Cominform. Numerous conferences between Polish Socialist Party leaders and representatives from other European countries indicate that the Polish Socialists may be trying to establish the outline of such an organization before the semi-annual meeting of the European Socialist parties, to be held at Antwerp in December.

Kremlin concern over the influence of the Voice of America broadcasts may be indicated by recent attempts to refute specific facts presented in the US transmissions. Previously, in commenting on the broadcasts, the Soviet press has stressed in general terms the view that the programs are propagandistic. Recent editorials, specifically attacking portions of the broadcasts which are concerned with US standards of living, suggest that the present Soviet objective is to persuade Soviet workers that they are not worse off than US workers.

NEAR EAST-AFRICA

Current developments in the Indian State of Kashmir have such serious implications that they may lead to a collapse of government authority in India and Pakistan or even to war between the two dominions (see page 5).

Improved prospects of re-election for Prime Minister Smuts in the next South African general elections (which will probably be held in 1948) increase the likelihood that UK-South African relations will remain harmonious and advantageous to the UK. In the past month and a half, Smuts has gained strength by failure of the nationalist opposition to reconcile moderates and extremists and by popular approval of the way his administration has handled the Indian minority and South West Africa mandate issues before the UNGA.

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Although French officials believe that an acceptable settlement of the French-Vietnam dispute can be reached through skillful negotiation with former Emperor Bao Dai, it is more likely that the anticipated agreement would decrease the ex-emperor's following and increase support for President Ho Chi Minh and the Viet Minh League. The French plan would offer Bao Dai's nationalist followers additional concessions as to diplomatic representation and control of the army, in the belief that such concessions would increase Bao Dai's followers and lead to a rapprochement between Viet Minh elements on the one side--perhaps including Ho Chi Minh-- and the French and Bao Dai on the other. Such a rapprochement would be unlikely, however, because this would indicate to the nationalists that Bao Dai had compromised in his demands for independence.

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A R T I C L E S

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TOP SECRET**PROSPECTS FOR A MULTILATERAL AIR TREATY**

The future of US international air transport operations may be adversely affected if the ICAO Conference which opens on 3 November at Geneva is not able to agree on a comprehensive multilateral treaty. Without international agreement on basic principles, US overseas air operations: (1) will be increasingly handicapped by local restrictions in areas along world-wide US air routes; and (2) ultimately may prove economically impractical.

Divergent interests have split the participating countries into three groups. The first group includes those countries--such as the Netherlands, the Scandinavian nations, France, Canada, and Australia--which are already established as international air carriers and wish to exploit their initial advantage with minimum hindrance. This group, therefore, desires a multilateral treaty which would provide for automatic and obligatory exchange of air routes between the signatories. A second group is opposed to a multilateral treaty. This group includes such countries as the Arab League states, China, and Argentina, which cannot compete with the larger countries as international air carriers and are principally concerned with developing local and regional traffic. These countries consider unrestricted international air operations a serious threat to the development of their own air lines. For example, the Arab League states are anxious to reserve to Arab airlines all local traffic within their combined territory.

A third bloc of countries generally supports the US position which lies between these two extremes. The US desires a multilateral treaty which combines the maximum freedom in international air operations consistent with adequate protection for local and regional services. The US itself desires that the treaty recognize broad general principles which will guarantee US commercial and strategic requirements and create a favorable basis for the continuation of US pre-eminence in world transport. The US also desires protection against indiscriminate entry by foreign airlines into the US, the greatest air travel market in the world. In the interests of national security it wishes to exercise control over foreign air operations into the US. The US and its supporters favor the adoption of the principle of "fair and equal opportunity" but consider that details of routes should be

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left to bilateral agreements. These countries, moreover, are willing to accept reasonable restrictions on the volume of traffic they carry between countries on international routes. (While the air interests of the UK are not identical with those of the US, any serious differences probably will be overridden by top political considerations, and, accordingly, the UK delegation is expected to support the US position.)

The divergent views held by the participants will present serious obstacles to the conclusion of a multilateral treaty at Geneva which resolves the major controversial issues. Certain of the small countries, whose cooperation is indispensable to the development of trans-world air routes, will exploit their position to force compliance with their individual demands. The more powerful countries, themselves divided, may be unable to obtain a comprehensive multilateral treaty.

As the pattern of international air transport operations is rapidly becoming crystallized, the Geneva Conference may present the last opportunity to organize world air traffic on a multilateral basis. The failure of this Conference would give free rein to sectionalism and might prevent the US from maintaining the minimum level of world-wide air operations consistent with US strategic, political, and economic requirements.

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TOP SECRET**SOVIET TACTICS IN UNGA KOREAN DISCUSSIONS**

Preliminary Soviet moves in the current UNGA discussions of the Korean question clearly indicate that the USSR is determined to forestall any solution of the problem by UNGA. In accord with present Soviet policy, the Soviet Delegation is apparently under instructions to devise delaying tactics which will permit the USSR to maintain its position in Korea for as long a time as is necessary to exhaust the patience of the US and, through US withdrawal, to leave the country open for Soviet domination.

The initial Soviet proposal, that elected representatives from both zones of Korea be allowed to participate in UNGA discussions, fulfills the function of a stalling tactic in every respect. It has all the markings of "democratic" procedure but, at the same time, it is basically unacceptable to the US, if only because it would be impossible to hold elections and to transport the elected delegates to Lake Success in time for them to be consulted in this session of UNGA.

It is impossible to predict the exact form of future Soviet stalling tactics because they will probably be improvised on a day-to-day basis. However, it is probable that, at some point in the proceedings, the Soviet Delegation will launch into a propaganda attack charging that the US is responsible for the current stalemate in Korea. The theme of this offensive will be that the US is determined to set up a separate state in South Korea for the purpose of "imperialist exploitation." Material for this campaign will be drawn from the repeated claims of Rhee Syngman, leading South Korean Rightist, that he has made a deal with the US for the establishment of an independent South Korean government under his leadership. In addition, the Soviet Delegation will probably supply voluminous statistics on Rightist "terroristic acts" against Korean Leftists. (There is evidence that the South Korean Communists have been under instructions to compile such statistics assiduously in recent months.) The USSR will contend that the US has sanctioned these acts in order to crush "democratic" opposition to its "imperialist" aims.

As a last resort, the USSR will probably challenge the jurisdiction of the UN in the matter. The Soviet Delegation will claim that only the four signatories to the Moscow Decision have any legal interest in the case and, further, that no UNGA decision can carry any weight unless implemented by the two occupying powers.

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CZECHOSLOVAK EAST-WEST TRADE BALANCE

The Soviet attack on the European recovery program has jeopardized Czechoslovakia's delicate balance of economic dependence upon both the West and the East. Forced by political considerations to strengthen its economic ties with the Soviet Union and Eastern Europe, Czechoslovakia is nonetheless dependent upon trade with the West to maintain present industrial levels and to supply the manufactured goods demanded by the East.

The Czechoslovak-Soviet five-year agreement concluded in July 1947 is designed to accelerate the eastward orientation of the Czechoslovak economy. Under this agreement, the Soviet Union agreed to place orders over a five-year period for such Czechoslovak products as rails, locomotives, oil pipelines, machine tools, sugar, shoes, sugar mill and shoe factory machinery, and electrical equipment. In return, Czechoslovakia is to receive Soviet iron ore, manganese, chrome, wool, cotton, and agricultural products. In theory, the agreement provides for long-range security as against the immediate advantages of Western aid. In practice, however, an important consideration militates against the fulfillment of this aim. Neither the USSR nor the other Eastern European countries with whom Czechoslovakia has economic agreements are able to supply the raw materials and specialized machinery which are indispensable to the successful operation of Czechoslovak industry.

Primarily because the Czechoslovak economy can obtain its raw materials only from the West, 66% of the country's total trade during the first seven months of 1947 was with the Western nations and only 18% with the Eastern European nations. Czechoslovakia's leading customers were Switzerland, Sweden, the Netherlands, Belgium, and Yugoslavia. The chief Czechoslovak sources of supply were the US, the UK, Switzerland, Sweden, Belgium, and the Netherlands. Czechoslovak trade with the USSR was relatively unimportant. If Czechoslovakia is to maintain its present high standard of living and industrial production, it must convince the Kremlin that, unless trade with the West is continued, economic collapse will result and the flow of Czechoslovak manufactured goods to the USSR will cease.

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IMPLICATIONS OF THE SITUATION IN KASHMIR

Current developments in the Indian State of Kashmir constitute a critically dangerous threat to the already strained relations between the Dominions of Pakistan and India. The recent revolt against the Maharajah of Kashmir, the Hindu leader of this predominantly Moslem State, was accompanied by an invasion of several thousand tribesmen from Pakistan's North West Frontier Province, followed by the tentative accession of Kashmir to the Dominion of India and the prompt dispatch of Indian Sikh troops to restore order in the State. Both the Government of Pakistan and the fanatical Moslem tribesmen of the North West Frontier Province view the accession of Kashmir to India as a betrayal of the State's Moslems (about 80% of the population) and as a serious blow to the interests of Pakistan generally.

Actual warfare between the two dominions may be set off if Pakistan sends troops into Kashmir (on the ground that only by such action can the Moslems in Kashmir be protected) or if additional large numbers of frontier tribesmen fulfill their threat to invade the State. In any case, it is expected that the events which have already taken place will so seriously intensify communal bitterness that further massacres may occur which, if sufficiently widespread, could lead to the collapse of all government authority in both dominions.

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TRENDS IN BRIEF

GENERAL

Negotiations between the Low Countries and US-UK bizonal authorities over the use of the Rhine ports have been suspended in the face of increasing Dutch and Belgian opposition to the US-UK position (see page 1).

While Arabs and the Arab press continue their diatribes against the UNSCOP partition plan and against the US for supporting the plan, the Arab Governments are following a policy of "watchful waiting" in the expectation that the plan will be defeated in the UN General Assembly. The UK, which announced some time ago that it would not assume responsibility for enforcing partition, may be expected to expedite its withdrawal from Palestine if UNGA accepts partition. If no decision is reached at this session of UNGA, the UK will probably set a definite date for withdrawal (within the next eighteen months) and, as in India, attempt during the intervening period to persuade the Arabs and the Jews to accept some sort of settlement.

Offers of armed support to the Iraqi Army and other Arab armies to prevent the partition of Palestine have been agreed upon at an Iraqi tribal conference, representing Iraq's 600,000 nomads. The most significant aspects of the conference are that: (1) the innumerable chronic antagonisms between the various tribes have been submerged in the face of the common danger in Palestine; (2) the Kurdish tribes are willing to associate themselves with an essentially Arab issue; and (3) Prime Minister Saleh Jabr is the guiding force behind the whole movement. If the Iraqi Government can retain control of this movement, the Government will have at its disposal for possible action in Palestine a formidable force of fanatic fighters.

A campaign to give more active aid to the Greek guerrillas is under way in Satellite countries. The Rumanians are holding public rallies on behalf of the guerrillas, and recent reports indicate that the Satellite states have secretly agreed (at a meeting held in August at Bled) that Albania, Bulgaria, and Yugoslavia should form armed groups

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and place them at the disposal of the "Democratic Army of Free Greece." These armed groups and the "Democratic Army" will reportedly be directed by a mixed staff of Soviet and Satellite officers under the "presidency" of Admiral Rodianov, the former Soviet Ambassador to Greece.

Discontent among French Communists with Soviet tactics at the recent Warsaw Conference has led certain members to threaten to quit the Party. The French Communists were disaffected by the refusal of the Kremlin's delegates to consider the national interests of the French Party.

WESTERN EUROPE

The French municipal elections of 19 October, by confirming the swing of popular support to extremist groupings, have undermined the position of the Ramadier Government (page 2).

In order to consolidate further the Eastern Zone of Germany, the USSR has sponsored two new political movements and has merged two moderate political parties (see page 4).

The announcement of the German plant dismantling list has produced less violent reaction in Germany than was anticipated, although the action has been generally condemned in the Western Zones. No strikes or disorders have occurred and there has been some evidence of popular relief at "knowing the worst." The press and radio of the Soviet Zone charged that the Western Allies desired to ruin and enslave Germany, but the tone of these charges was comparatively mild, apparently because the USSR hopes that the resumption of dismantlings will result in resumption of reparations deliveries, halted a year ago.

Proposals for a conference of German Minister Presidents prior to the London CFM meeting may have been Soviet-inspired. Although the proposed conference is purportedly intended to prevent an east-west split in Germany, its purpose would probably also be to enable the USSR to present the CFM with a German plea for unity. Such a plea would present the USSR with an opportunity for urging an early formation, on its terms, of a German central administration.

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The success of the UK economic program may be obstructed by the recent introduction in Parliament of a measure to reduce the powers of the House of Lords at a time when UK national unity is most to be desired. The Labor Government was forced to introduce the issue--over which bitter debate is anticipated--in order to appease its extremists who object to postponing nationalization of the iron and steel industry. Passage of the bill will make possible the enactment of a steel nationalization bill within the life of the present Parliament (by 1950). Its introduction at this time provides an indication both of left-wing influence and of Prime Minister Attlee's concern for the unity of the Labor Party.

EASTERN EUROPE

The Soviet decision to support the UNSCOP plan for the partition of Palestine was probably designed primarily to create instability in the Middle East (see page 5).

Speculation concerning the recent activities of Georgi Dimitrov, Premier of Bulgaria, includes suggestions that: (1) he may have participated in a recent meeting of the Comintern in Moscow; (2) he may have been appointed head of a delegation to negotiate a political-economic treaty in Prague; or (3) he may be relinquishing the Bulgarian premiership in order to devote more time to international Communism. The possibility that Dimitrov may relinquish the premiership appears most likely because the Kremlin probably considers him too useful to allow him to remain in Bulgaria now that the Communist regime is firmly entrenched there.

Communist plans to abolish the monarchy in Rumania appear to be reaching a crucial stage. Ex-King Carol, who is reliably reported to be corresponding with Rumanian Communists, apparently has been almost convinced that he should return to Bucharest. (Carol obtained permission to enter Portugal in early October on the exoress understanding that he would not permit himself to be used by the USSR as a tool against his son Michael.) The Communist strategy now appears to be: (1) to arrange for Michael's acceptance of an invitation to Princess Elizabeth's wedding on

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20 November; (2) to prevent his return to Rumania; and (3) to arrange for Carol's return. Such a plan would facilitate the abolition of the monarchy because Carol would be easier to discredit than the more popular Michael. Moreover, the Maniu trial may be postponed until Carol's return, since the latter would have no compunctions against the conviction of his old political opponent.

Current arrests by the Polish Government of persons charged with economic offenses against the state may be designed to forestall potential political opposition to Cominform action against the European recovery program. In the first wave of arrests since the elections in January, those apprehended were either government officials charged with trade or cultural relations with the West or persons friendly to the US and the UK Embassies.

NEAR EAST-AFRICA

The almost unanimous vote by which the Iranian Majlis rejected the Soviet oil proposal reflects a strengthening of Iran's determination to resist Soviet pressure. Although rejection of the proposal was anticipated, the vote (102 to 2) was unexpectedly decisive in view of Soviet efforts at intimidation and of the bitter political friction which developed recently between the opposition deputies and Premier Qavam. As precautionary measures against expected Soviet attempts to create disturbances within Iran, the Iranian Government has reinforced its troops near the Soviet border and has arrested, or removed from the northern provinces, several thousand persons suspected of being Soviet supporters.

A reduction of 150,000 men in the Turkish armed forces will be effected during the winter months by Turkey's decision to release one class of trained conscripts in November and to postpone calling up the new class until spring. The financial saving, however, will not be great, unless another class is released in March when the new conscripts are called. In that event, a substantial reduction could be effected in the appropriations for national defense.

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Despite apparent improvements in the Chinese National Government's military and economic situation, the Nationalist position remains basically unstable (see page 6).

French military operations in northern Indochina are not expected to force the Vietnam Republic to negotiate for peace on French terms, and the consequent loss of prestige may lessen French colonial strength elsewhere (see page 8).

Considerable violence can be expected in the Philippines during the national and municipal elections in November. The Philippine Government has appointed forces to augment the military police and to issue large initial quantities of firearms. The pre-election measures taken by the Government, although partly justifiable, are also probably intended to influence the elections. Moreover, these measures may further contribute to election disturbances.

WESTERN HEMISPHERE

Although the Communist attack on the Chilean economy is apparently about to spread beyond the coal-mining industry, the objectives in Chile of international Communism point to the strengthening of Party control over labor rather than overthrow of the Government (see page 10).

Argentina's request for direct negotiations between its Minister of War and the US Department of the Army represents a further effort to obtain benefits from Argentina's new policy of cooperation (see page 12).

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A R T I C L E S

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TOP SECRET**LOW COUNTRY OPPOSITION TO US STAND ON RHINE PORT ISSUE**

Negotiations between the Low Countries and US-UK bizonal authorities for the use of Dutch and Belgian ports in US shipments to western Germany have been suspended in the face of a marked stiffening in the Dutch and Belgian position. The original understanding reached at The Hague in July 1947 failed to receive the approval of the US occupational authority. Recently US-UK representatives presented new proposals which offered less favorable terms. Dutch and Belgian negotiators have refused to discuss the new proposals and have even withdrawn their agreement to the original Hague terms.

This action does not indicate that the resumption of the traditional role of Low Country ports as the gateway for Rhine traffic has become less essential. On the contrary, this element of reconstruction continues to be a major objective of Dutch and Belgian policy. However, the Low Countries apparently believe that delay will improve their bargaining position. Both countries are confident that a serious crisis in German transportation will soon compel the bizonal authorities to make use of the Low Country ports. Meanwhile, both countries are expected to continue their efforts to win sympathy from other European countries by emphasizing the inconsistency they see in the US desire that the European economy be organized on a broad international basis while their own economic reconstruction in one important aspect is delayed because bizonal occupation authorities are preoccupied solely with protecting the bizonal foreign exchange position. It is now likely that Belgium and the Netherlands, having made verbal diplomatic representations to the US when the Hague agreement was rejected by the bizonal authorities, will now take more formal steps in the hope of obtaining satisfaction at the governmental level.

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TOP SECRET**IMPLICATIONS OF THE FRENCH ELECTIONS**

The French municipal elections of 19 October have undermined the position of the Ramadier Government and may correspondingly reduce its ability to cope with French economic problems and European recovery. The result has been a marked increase in political tension and a confused situation in which events may move with extreme rapidity. In what is perhaps a desperate effort to retain control in the hands of the moderates, Ramadier has moved swiftly and vigorously to reshuffle his Cabinet and to press the attack upon the two leading extremist groupings.

As indicated by preliminary returns, popular support has swung sharply away from the moderate center, which dominates the Cabinet and Assembly, toward General de Gaulle's Rally of the French People (RPF). Two-thirds of the MRP appear to have joined with the Radical Socialists and the Right to give the RPF about 40% of the popular vote. The Communists and the Socialists have substantially held their own with about 30% and 20%, respectively.

The imposing show of strength by the RPF arises from: (1) French disillusion with coalition governments and the rigid party system; (2) growing anti-Communism stimulated by reaction to the formation of the Cominform; and (3) De Gaulle's popular appeal. The defeat of the MRP and the emergence of a strong anti-Communist grouping has considerably increased political tension throughout France. In an effort to meet the new situation, Ramadier has revamped and decreased the size of his Cabinet. For the first time he has given the Socialists, who still hold the balance of power, a clear majority of the ministerial posts (7 out of 13). Leftist Socialists and Gaullists have been eliminated to give Ramadier more effective control. The defeated MRP now is faced with the choice of remaining in the Cabinet and attempting to preserve its identity as a party, or shifting its support to De Gaulle.

In such a situation, the ability of the present Ramadier Cabinet to survive continues somewhat problematical. De Gaulle apparently would prefer not to assume power at this time, and he can be expected to counter Communist efforts to force his premature return to power. De Gaulle has indicated that he will not

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head a government until the powers of the executive have been increased by a revision of the constitution. The weak base of popular support upon which the Ramadier Government now stands, however, may lead to a series of events which neither De Gaulle nor his enemies, the Communists, may be able to control.

Two general lines of action are open to the Communists: they can stall for time while attempting to win over the Socialists; or they can precipitate an immediate showdown with De Gaulle. In the former and more likely event, the Communists would continue to retard French recovery by encouraging sporadic strikes, their main objective being to sabotage the European recovery program. A Communist attempt to seize power by force would be doomed to almost certain failure. Even if the Communists were to call a general strike, it would probably fail finally. Moreover, such a strike would give De Gaulle another opportunity to prove that the Communists, on the orders of Moscow, are sabotaging French recovery.

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SOVIET POLITICAL MOVES IN GERMANY

Soviet efforts for further consolidation of the Eastern Zone of Germany include the creation of a "national" Communist movement and increased attempts at weakening the moderate opposition parties. The newly organized National Movement (or National Front) is based on the Bismarckian concept of German-Russian cooperation and apparently is designed to win nationalists, militarists, students, and scientists to some form of militant national Communism in Germany. Well-known figures from the Moscow Free Germany Committee (FGC), such as Paulus, Einsiedel, and Seydlitz, have been active in the formation of the group. If the movement develops sufficiently by reason of its appeal to large numbers of Germans, it may largely replace the Soviet-sponsored Socialist Unity Party (SED) as the chief instrument of Soviet political control in the Eastern Zone.

To bolster the Nationalist Movement and the faltering SED, the USSR apparently seeks to combine branches of the Christian Democratic Union (CDU) and the Liberal Democratic Party (LDP) in the Soviet Zone. Soviet authorities would thus replace the politically objectionable leadership of the moderate parties and reduce in inter-party meetings the two votes of these parties to one, which will put them on a parity with the SED. In addition, these tactics would almost certainly damage the national aspirations of the western CDU and LDP by abolishing their Eastern Zone representation.

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TOP SECRET**SOVIET SUPPORT OF UNSCOP PARTITION PLAN**

The recent decision of the USSR to support the UNSCOP majority plan for the partition of Palestine represents an important change in Soviet policy in the Middle East. This decision apparently reflects the Kremlin's realistic acceptance of its failure to achieve a working arrangement with the present Arab leaders. Inasmuch as the Arabs have resisted Soviet overtures and Communist ideology, the Kremlin apparently has decided upon a course calculated to create the maximum degree of instability in the Arab world. Such a chaotic condition would jeopardize the influence of the US and UK in the Middle East and would endanger the stability of those Arab governments which look to the West for support. Consequently, it would permit the USSR to increase its influence throughout the area. The establishment of an independent Jewish state, with the subsequent removal of immigration restrictions, would make it possible for thousands of Communist-indoctrinated "refugees" from the Satellite nations to emigrate to Palestine. The USSR would thus acquire, for the first time, a substantial foothold in the Middle East.

Another major reason for Soviet support of partition is undoubtedly the desire to obtain UN recognition of the right of a minority group to set up its own state, with the support of the great powers, in the land where it resides. Such recognition would constitute a precedent for Soviet support of an "independent" Kurdistan and for the return of the Turkish eastern provinces to a reconstituted "independent" Armenia.

The Soviet leaders probably reason that a Jewish state, enjoying the vigorous support of influential Jewish elements in the US, would serve as a continuing irritant to US-Arab relations. Moreover, they probably believe that the formation of an international constabulary under UN auspices would provide the USSR with an excellent opportunity to place in Palestine experienced Soviet personnel who would be capable of integrating their activities with local pro-Soviet groups.

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TOP SECRET**CHINESE MILITARY AND ECONOMIC DEVELOPMENTS**

Although the military and economic position of the Chinese National Government has shown superficial signs of improvement in recent weeks, there has been no real lessening of the Government's basic instability.

The Nationalist military situation appears on the surface to have improved recently. Largely because Chinese Communist operations in Manchuria have not developed into an all-out offensive, the Nationalists have been able to hold their main positions and, strengthened by the arrival of some reinforcements from south of the Great Wall, have indicated their ability to stage a limited counter-offensive. Such a counteroffensive, however, would draw Nationalist troops away from strong defensive concentrations into positions more vulnerable to attack and would thus support the Chinese Communists' long-range strategy of attritional warfare. Moreover, the assignment of Nationalist reinforcements to Manchuria tends to weaken the Government position in areas of north China where the Communists may soon be expected to intensify their military activity.

An improved economic position of the National Government would appear to be indicated by the recent halting of the inflationary trend evident in September. This development can be attributed largely to a renewed optimism among the Chinese concerning the prospect of US aid--an expectation which has been increased by the Bullitt article in Life Magazine, by various encouraging statements from US congressmen, and by press speculation regarding the Wedemeyer report. Actually, however, the underlying forces of economic instability continue to increase. The Chinese National Government has confidentially informed US representatives that during September budgetary receipts have been meeting only 26% of the expenditures and that the national note issue has increased more than 30% in the six weeks ending 10 October.

In the overall pattern of China's civil conflict, time will probably continue to favor the Chinese Communists so long as the Communists avoid positional warfare and the National Government

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does not receive outside aid. Barring substantial changes in the balance-of-power between the opposing Chinese forces, the Communists are likely to rely more upon time than upon sensational military victories in achieving their long-range goals in China.

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TOP SECRET**PROSPECTS FOR FRENCH SUCCESS IN INDOCHINESE CAMPAIGN**

Even though the current French offensive in northern Indochina appears to have achieved certain limited objectives, the campaign will probably not be successful in forcing the Vietnam Republic to negotiate for peace on French terms. Moreover, a consequent decline in French prestige may weaken the control over native peoples in other parts of the French Empire.

Although French military authorities are holding all publicity on Indochina to a minimum and are claiming that the campaign is no more than a minor operation (probably in order to avoid the possibility of UN intervention), larger French forces are engaged in these actions than have been committed ever before against the Vietnam Republic. The purposes of the French drive are: (1) to cut overland arms-import routes between Vietnam and China by establishing French control along the northern Indochinese border; (2) to weaken the resistance of the Vietnam Republic by killing or capturing its leaders, by increasing combat attrition of its ammunition and equipment resources, and by disrupting its communication and propaganda facilities; and (3) to compel the Vietnam Republic, as a result, to negotiate for peace on French terms.

Prospects for significant French success in the fall offensive are meager largely because the guerrilla tactics adopted by Vietnam forces will conserve their ammunition and materiel while drawing French forces into mountainous and difficult terrain. The disruption of Vietnam communication facilities will probably not seriously hamper Vietnam administration and forces because they have demonstrated during the past year their ability to operate on a decentralized basis and to coordinate effectively the military activities of northern and southern Vietnam groups. The French expectation that the Vietnam Government would be willing to negotiate on French terms ignores the intensity of the hatred and contempt felt for the French by most of the population of northern Indochina. These feelings are not associated solely with the Vietnam Republic but would continue even if the Vietnam Republic should suffer grave defeat. None of the political figures advanced by the French or by native groups in French-held areas as alternatives to President Ho and the Vietnam Republic can command enough popular support to weaken the Vietnam Republic by inspiring important defections from it.

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French military authorities have committed their forces to the fall offensive, despite these factors opposing their success, probably because: (1) they underestimate Vietnam determination to resist; and (2) no French political party can support a move to conciliate the Vietnam because such a precedent might lead in a direction dangerous to the French Empire.

If the French fail to weaken the Vietnam Republic by their fall operations, the coming of the spring rainy season will place the French in the awkward position of maintaining extended lines of supply while defending themselves against the mobile operations of the Vietnam guerrilla forces. If the French forces are forced to withdraw in the face of such circumstances, they will have expended much military equipment and manpower for small returns. The consequent decline of French prestige will easily lead to wide defections among the native elements in French-held areas who have previously been cooperative.

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TOP SECRET**COMMUNIST OBJECTIVES IN CHILE**

The Communist-led offensive on the Chilean economy is apparently on the point of spreading beyond the coal-mining industry. There remains, however, no reason to believe that the Communists have at any time intended to seize power in Chile (see Weekly Summary of 17 October, page 2). The coal strike concerned only one of Chile's three key industries. If revolution had been the Communist objective, the new strikes in other industries (which were ordered only after most of the coal miners had returned to work) would probably have been timed to coincide with the coal strike. Moreover, there is no evidence that the Communists have either the shock troops or the political organization needed to make a bid for control of the country.

On the other hand, the Chilean Government's contentions that the strikes were ordered from abroad and were designed to advance the interests of international Communism seem well-substantiated. Reports over the last months appear to indicate, however, that the immediate interest of international Communism, in Chile and in other Latin American countries, does not point to the establishment of Communist governments. It points instead to the reassertion of international control over the Communist parties, in which there has been widespread dissension because of slack control from Moscow. In Chile, particularly, the Party has been torn by an internecine dispute and was losing ground in the labor movement to the vigorously competitive Socialists.

A strike campaign with objectives short of the seizure of power might, therefore, have seemed to promise beneficial results. Such a campaign would precipitate a domestic crisis in which Communist leaders could re-establish their control over the various dissident factions; it would give the Communists an opportunity to remind the workers of the Party's role as the self-appointed champion of labor; it would place the Socialists in the position of having to support the Government's repressive measures; and it would worsen Chile's precarious economic situation, making necessary an appeal for US economic aid.

The results of the coal strike have placed the Communists in a strong propaganda position which enables them to tell Chilean

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labor that: (1) the coal miners, who notoriously operate under sub-standard conditions, did not win the reforms they were demanding of the Chilean Government; (2) the coal strike was broken by government troops, so that the mines are now operating under military rule; (3) the strike became hopeless only when the "imperialist" US promised the Chilean Government coal; and (4) the Communists are the only group that has taken vigorous "defensive" action on behalf of the workers against the Government's measures of suppression. The Chilean Communists can be expected to develop these propaganda themes during the coming months.

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~~TOP SECRET~~**ARGENTINE INTERESTS IN US MILITARY AID**

The Argentine Government, by requesting arrangements for direct negotiations between its Minister of War and the US Department of the Army, has taken a further step toward obtaining benefits from the policy of cooperation it initiated at the Rio Conference (see Weekly Summary of 26 September, page 6). The purpose of the negotiations, according to the Argentines, is to obtain technical advice on the production of war materials and on other military problems. Such negotiations would presumably take the form of: (1) the joint staff conversations between the US and other American Republics in 1944 and 1945; or (2) the existing joint US-Canadian, US-Brazilian, and US-Mexican commissions; or (3) the present arrangements between certain foreign governments and US government departments under the supervision of the Interdepartmental Committee on Scientific and Cultural Cooperation. From the Argentines' point of view, this would involve either the opening of a new avenue of contact or giving new powers to their military delegation on the Inter-American Defense Board.

The Argentines would probably attempt, in the course of the negotiations, to put themselves on an even footing with Brazil and Mexico in receiving US military aid. Subsequently, they would seek to extend the discussions to such questions as: (1) the procurement of the latest US-manufactured military equipment and of US-furnished dies and machine tools with which the Argentine munitions industry could manufacture Hemisphere-standard equipment; (2) Argentina's wish to have at least limited access to the results of current experiments and studies in the US and to send students and specialists to advanced schools in the US; and (3) Argentina's request for a pre-conference understanding between the two countries on the military measures to be considered at Bogota in January 1948.

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TRENDS IN BRIEF

GENERAL

Opposition to French economic union with the Saar can be expected from the USSR at the London meeting of the CFM. Since the Moscow Conference, the USSR has avoided open opposition to French plans in the Saar, but the recent Saar elections, which have been interpreted as favoring union with France, have destroyed the Soviet hope that the Saar would oppose the union. The USSR is conducting a violent campaign against union, in the German press of the Soviet Zone, as a preparation for Soviet opposition in London to "unilateral dismemberment."

The existence of a Yugoslav civil airline (JAT) has been confirmed by an exchange of notes between Sweden and Yugoslavia in connection with an air agreement which designates the Swedish airline (ABA) and JAT as operators of a diplomatic courier service. JAT is ostensibly Yugoslav-owned, and it seems probable that the USSR and Yugoslavia, while continuing to use JUSTA (the Soviet-Yugoslav airline) throughout Eastern Europe, will employ JAT in efforts to extend operations into Western Europe. Through this device, the USSR can meet the objections of the Western Powers to air agreements involving Soviet-controlled airlines.

Hungary is attempting to force the US to agree that US military courier (EATS) aircraft flights must be conditional on US clearances for an equal number of flights across US Zone Austria by the Soviet-Hungarian commercial airline (Mazovlet). The EATS flights are needed to support the withdrawal of US military personnel within the 90-day period following the signature of the Peace Treaty. Hungary's action is therefore indicative of the difficulties which will be encountered if the suspended US-Hungarian civil air negotiations are resumed.

WESTERN EUROPE

The current strikes in Paris, now backed by the Communists, are likely to bring about a reaction against the Communists in the municipal elections. Following the pattern of last spring's strikes,

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the Communist-controlled CGT and the Communist Party decided to support the strikes only when they saw that the strikes would succeed. Because the strikes are causing great inconvenience to the population of Paris and because Ramadier has labeled them as a "political move" on the eve of elections, it is expected that many lower middle-class votes in Paris will be lost to the Communists.

The results of the recent Rome elections indicate a strengthening of the popular support of the De Gasperi Government. Although the leftist People's Bloc polled a few more popular votes than did De Gasperi's Christian Democrats, the latter won as many seats in the City Council and showed a 13% gain in popular following against a 4% loss for the Bloc, as compared with a year ago. With 27 of the 80 seats in the City Council, the Christian Democrats must, however, continue to rely on rightist support to attain a majority. A combination of the rightist parties, which lost about 12% in popular ballots, and the Christian Democrats would yield a total of 45 seats, a working majority.

De Gasperi may reorganize the Italian Cabinet as the result of his recent success in the Rome elections and of the effect of the Cominform announcement on the moderate Leftists. The appointment now of a moderate Socialist to an economic ministry would increase De Gasperi's prestige and would strengthen the capacity of his Government as an anti-Communist force, without giving the appearance of his having yielded to leftist pressure.

EASTERN EUROPE

Current Soviet economic activities in Austria are designed to force that country into the Satellite orbit and, if unchecked, can result in Soviet political domination within six months after an Austrian treaty becomes effective (see page 1).

NEAR EAST-AFRICA

It appears increasingly probable that the Palestine partition plan will not obtain the necessary two-thirds majority in the UN General Assembly despite US and USSR backing. Argentina and Cuba

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have declared themselves against partition, thereby raising to 16 the number of opposing states. Moreover, it is reported that the Netherlands, Belgium, and possibly two or three more states (Luxembourg, Siam, and Yugoslavia) may vote against partition and that six states (the UK, Australia, and four Latin American states) may abstain.

FAR EAST

Tension in Burma between Burmans and the Karens, an ethnic minority group of three million people, has reached dangerous proportions and may result in armed clashes and even civil war in the near future. Karen fears of the numerically superior Burmans have been intensified since the war by the failure of the Karens to secure from the British, to whom they have been loyal for a century, adequate guarantees for the protection of their rights against Burmans. The Karen National Union hopes to obtain UN action on behalf of the Karens before an outbreak occurs. Such an incident may take place after 15 November, the deadline for the surrender of all illegally-held arms, which the Karens are reluctant to turn in because they fear attack by the Burmans. The transfer of British authority to the Government of Burma early in 1948 will be another critical date in Karen-Burman relations and will test the new government's capabilities for assuming independence.

WESTERN HEMISPHERE

The lack of concerted effort by Chilean Communists in the recent coal strike indicates clearly that the strike was not designed by the leaders of international Communism as a showdown in the Western Hemisphere, despite President Gonzalez Videla's charges to that effect (see page 2).

Brazil's decision to break relations with the USSR may have been timed to prepare US public opinion, which has a strong influence on Brazilian policy, for an all-out attack on the Brazilian Communists. The recent Foreign Office instruction to the Brazilian UN Delegation to support the US on all issues may have been similarly

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timed. A further stiffening of the Brazilian Government's attitude had already showed itself in the tone of its protest against a recent attack on President Dutra in the Soviet press. The major domestic issue is whether the Government, reportedly under increasing army pressure in recent months to take drastic measures against the Communists, will ignore existing constitutional guarantees and make frank use of the police state techniques which, according to the army, can alone meet the challenge of the country's dynamic and growing Communist movement.

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SOVIET ECONOMIC POLICY IN AUSTRIA

Current Soviet intentions of forcing Austria into the Satellite orbit through economic domination have been made clear by the demands of the Soviet delegate at the meetings of the Allied Treaty Commission (ATC) during the past five months. The USSR has already implemented some of its objectives by: (1) integrating properties seized by the USSR into the economy of the Satellite states; (2) obstructing Austrian industrial recovery and limiting Austrian trade with the West (particularly with Germany); and (3) disregarding Austrian laws affecting wages, prices, distribution, exports and imports, taxes, and decisions concerning the utilization of fuel and power.

German assets in eastern Austria claimed by the USSR in the ATC are valued at more than \$700 million and include half of the industry in eastern Austria, all oil reserves, and three-fourths of the oil-refining capacity and of Danube shipping. Besides its claims for assets, the USSR has also demanded that Austria pay for relief supplies and services delivered since the liberation, in addition to 600 million Austrian schillings in exchange for the German reichsmarks which were turned over to the Austrian Government by the Soviet Army. The USSR also supports a Yugoslav claim for \$150 million in reparations from Austria.

Unless an Austrian treaty succeeds in materially reducing Soviet demands and in modifying the present extraterritorial status of Soviet monopolies, the USSR will probably be able to force Austria into the Satellite economic orbit within six months after a treaty becomes effective. Loss of political independence will inevitably follow economic dependence on the USSR.

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THE COAL STRIKE IN CHILE

Recent events in the current Chilean coal strike tend to confirm the early estimates that international Communism did not intend the dispute to precipitate a major showdown, despite President Gonzalez Videla's charges to that effect (see Weekly Summary of 10 October, page vi). No sympathy strikes have occurred in the copper and nitrate industries, where the Communists, because of their control of the relevant unions, have undoubtedly been in position to bring them about. About 500 additional miners are returning to work each day, and 2,000 of the 18,000 who participated in the strike through the first few days are, despite widespread fear of Communist reprisals, back on the job. Moreover, the Communists have shown themselves eager to achieve an early settlement, and, while they have not yet offered to revise their demands, their eagerness to make a settlement indicates that they are sensitive to popular resentment of the current rationing and shutdowns. Meantime, President Gonzalez Videla's hand has been greatly strengthened against the strikes by assurances that Chile will receive from the US substantial increases in coal shipments.

Because of the lack of concerted effort by the Communists, the Government's imminent defeat of the strike cannot be regarded as a major setback for either Chilean or international Communism. The drastic measures adopted by the Chilean Government to break the strike enable the Communists to exploit the defeat as evidence that better wages and working conditions cannot be obtained from Gonzalez Videla. The Chilean Communists still retain the strategic positions from which they can paralyze the Chilean economy whenever they want to. Moreover, from the standpoint of international Communism, the fact that the coal shipped to Chile from the US will not be available for the European recovery program is clear gain.

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TRENDS IN BRIEF

GENERAL

Any efforts to contain Soviet air expansion appear unlikely to succeed because Italy is required by the terms of the Peace Treaty to extend equal opportunity in obtaining air agreements to all members of the UN (see page 1).

Satellite transportation systems are rapidly being coordinated by the USSR in order to achieve more effective commercial and military use in the Soviet service. The thoroughness of the Soviet program is indicated by the present control of Danube shipping. The USSR has now brought under Soviet license all Danube shipping belonging to Rumania, Bulgaria, Yugoslavia, Hungary, Czechoslovakia, and the Soviet Zone of Austria. This combined fleet is operated as a pool which prevents individual shipping interests from organizing their own activities. All other craft on the Danube are excluded from the section below the US Zone of occupation in Austria.

An increased willingness on the part of the USSR to support Satellite airlines is indicated by the delivery of four new, two-engined transport aircraft to Yugoslavia. Yugoslavia has been desperately short of air equipment and was led recently, by delays in Soviet deliveries, to purchase a few Douglas transports in Western Europe. Having declared its desire to initiate commercial air operations to the Near East, Yugoslavia is now in a position to do so by exploiting its rights under the Italian Peace Treaty.

China has indicated that it will not support the US position at the forthcoming multilateral air convention in Geneva because it desires restrictive measures to protect Chinese airlines from powerful foreign competition. Chinese opposition to the US draft, along with that of other countries, will probably make difficult a successful negotiation of the agreement on US terms.

WESTERN EUROPE

The latest changes in the UK Cabinet indicate that there has been no decisive shift in the political make-up of the British Government and suggest that the Government will be obliged to maintain

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a compromise between practical measures and Socialist principles. The recent changes, which seem designed largely to improve the administration of certain ministries, merely postpone the problem of achieving Party unity between Labor's left and right wings. It is significant that in demoting Shinwell, Attlee ignored pointed trade union warnings against his removal as Minister of Fuel and Power.

The "progressives" in the UK Conservative Party appear to have won leadership from the die-hard Tories during the past year. In the recent conference, overwhelming and enthusiastic support was given to a statement of policy drawn up by the "progressives" which brings the Party so far left of its old position as, in effect, to endorse most of the Labor Government's reforms. It is doubtful, however, that all the die-hards have really been won over to the new liberalism or that all the enthusiastic delegates understood the unorthodox implications of the new policy.

Increasing participation by Eire in UK economic planning may inaugurate a new era in relations between those countries. President De Valera's recent trip to London for the purpose of discussing long-term trade plans may indicate: (1) acceptance of UK-Eire economic interdependence; (2) realization of Eire's interest in maintaining the value of the pound sterling; and (3) the partial disappearance of Eire's ancient aspirations for economic independence and self-sufficiency in the light of that country's increasing foreign exchange difficulties.

Although DeGaulle's popularity continues to increase in France, his Rally of the French People (RPF) is experiencing some difficulty in finding sufficient, qualified candidates to represent it in the municipal elections. Many political candidates are still not certain enough of a DeGaulle victory to risk their original party affiliation by joining RPF lists. Until recently, the RPF has had little working class support, but reports of DeGaulle's successful rally at Vincennes on 5 October indicate that he is attracting more working-class interest.

French industrial activity in recent months has reached approximately 95% of the 1938 level (a subnormal period) but the

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man-hour production is only about 83% of prewar output. The discrepancy is apparently the result of: (1) capital depletion caused by destruction and excessive depreciation during the war; and (2) "human depletion" caused by malnutrition, removal of certain incentives to work, and psychological attitudes brought about by the current political and civil strife in France.

French-Italian relations will be strained by the plebiscite scheduled for 12 October in the Briga-Tenda area, awarded to France by the Italian Peace Treaty. The plebiscite will be favorable to France because most former Italian inhabitants have moved out, some apparently under pressure. The loss of Italian territory will probably precipitate a bitter press reaction, based on the charges that the French have failed to act on the proposed customs union, that France has retained its share of the Italian fleet, and that there has been discrimination against Italian labor in France and in Tunisia.

Results of the national elections in Italy next spring may be forecast by the voting in the municipal elections in Rome scheduled for 12 October. The vote in Rome will probably reflect Premier De Gasperi's Christian Democratic victory over the Leftist opposition in the recent no-confidence vote. The returns in Rome will probably give Rightist groups about 40%, the Leftists some 30%, the Christian Democrats approximately 20%, and the Saragat (right-wing) Socialists and others about 10%. A small vote for Saragat may adversely affect De Gasperi's present plan to include Saragat's party in the Government.

Available evidence suggests that Franco may shortly proclaim himself Regent of Spain and appoint a Prime Minister. Franco would presumably take any such steps on the 12 October national holiday and concurrently would appoint a "Council of the Realm," as provided in the new Succession Law, and make certain changes in the Cabinet.

Western European military leaders increasingly regard Africa as a potentially important base for future military operations. High Belgian Army and Air Force officers are reportedly undertaking a survey of potential base sites in the Congo for use should Europe

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be overrun. French military officers have indicated that French resistance would probably continue from North Africa if France were conquered or a successful Communist coup occurred. The Portuguese Government has made plans to shift to Angola, if necessary, and Franco is apparently making similar preparations in Spanish Morocco. Such thinking by Western European military men is apparently based on the conviction that Soviet Armies, for the time being, at least, could overrun Europe quickly should the Kremlin so order.

An opportunity for the Communist Party in Iceland to incite a general strike in order to facilitate its re-entry into the Government may arise on 15 October when present wage agreements expire. Through its domination of the Icelandic Federation of Trade Unions, the Party may be able to cause the downfall of the present coalition government from which the Communists are excluded. If the Communists are able to gain entrance into a new coalition cabinet, they will try to obtain control of the Ministry of Aviation in order to hamper implementation of the US-Iceland Airport Agreement.

EASTERN EUROPE

The Czechoslovak munitions industry appears to be developing as a well-integrated subsidiary of the USSR's armaments production program (see page 3).

Elimination of Communist opposition in the Satellite States will be considerably advanced by the fusion of the Communist and Social Democratic Parties into the United Workers' Party in Rumania. This step emphasizes the trend already apparent in Bulgaria, Czechoslovakia, Hungary, and Poland where the Communists have recently intensified their efforts to deprive the Socialists of independent status.

Since the recent elections in Hungary, the Communists have abandoned any semblance of parliamentary legality in obtaining evidence of "fraudulent" electoral practices by the Independence Party and its leader, Pfeiffer. The illegal charges, which will

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probably be upheld by the Communist-packed Electoral Court, will eliminate the Independence Party from the Hungarian National Assembly, and will illustrate Communist intentions with respect to remaining opposition groups.

In order to provide material for future Soviet propaganda among the Germans, the USSR may propose quadripartite withdrawal of occupation troops from Germany if the November meeting of the CFM fails. This proposal, which would antagonize the French (who violently oppose a unified and/or unoccupied Germany), will not be seriously pressed by the USSR. The implementation of such a proposal would deprive the Soviet-sponsored members of the Free Germany Committee of necessary military support.

NEAR EAST-AFRICA

The general situation in India has grown worse, despite a recent decrease in communal disorders. Conditions in both the Dominion of India and Pakistan are semi-chaotic, and relations between the two governments are currently very strained (see page 5).

FAR EAST

Wide divergence between Dutch and Republican views on acceptable conditions for negotiations will complicate the task of the UN Three Power Commission for Good Offices (see page 7).

The current Chinese military situation has driven heavy amounts of capital from Manchuria and north China to Shanghai. Such capital immediately seeks refuge in US dollar assets via the black market. By 9 October, the black market rate for one US dollar had jumped to about CN\$ 87,000 as against CN\$ 63,000 at the end of September, and local retail prices apparently have kept pace with this advance.

Current Soviet troop reductions in North Korea, along with the appearance of units of the North Korean People's Army along the 38th parallel, suggest the possibility of unilateral withdrawal,

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by the USSR, if the recent Soviet proposal for US-USSR withdrawal is not soon accepted. Such action would constitute a clear breach of the Moscow Decision and would strengthen the US position before the UN. However, such an advantage could be easily offset by the psychological effect on US and Korean public opinion and on certain members of the UNGA.

WESTERN HEMISPHERE

The current Communist-led coal strike in Chile appears in most respects to be a typical Chilean employer-worker dispute, despite the statement by President Gonzalez that the strike represents a "showdown" with international Communism (see page 9).

The apparent Soviet estimate of the US-Argentine rapprochement at the Rio Conference is that it constitutes a sharp, though not irretrievable, setback to Soviet policy in Argentina. Hitherto this policy has been based on recognition of: (1) Argentina's importance as a potential focus of anti-US activity in Latin America; (2) Argentina's need for industrial materials in connection with its five-year industrialization plan; and (3) the possibility that, by supplying some of these materials, the USSR might assure Argentina's neutrality in any future conflict between the US and the USSR. There is some evidence of a new Soviet point of view which recognizes that this policy is inapplicable to the post-Rio situation but maintains that Peron must eventually choose between economic collaboration with the US and the political support of his Nationalist followers, and that he cannot make either choice without bringing to power in Argentina a regime that would be less effective than the present Government in combatting Soviet objectives.

The Panamanian General Assembly, in rejecting President Jimenez' request for limitations upon the powers of the extraordinary legislative session now in progress, has set the stage for a great national debate on the US-Panamanian defense-sites issue. Any new US-Panamanian defense-sites agreement would presumably be submitted for ratification to the extraordinary session in question. Hence, President Jimenez must now begin the unavoidably bitter struggle over ratification in a strategically weak position vis-a-vis

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an increasingly restive legislature. The result might be a situation in which the Assembly, under popular pressure stimulated by anti-US opposition leader Arnulfo Arias, would demand revision of the agreement on terms more favorable to Panama.

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A R T I C L E S

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TOP SECRET**PROSPECTS FOR SOVIET AIR EXPANSION**

The accelerated trend toward imposing a boycott against Soviet Satellite airlines cannot culminate in an effective barrier to Soviet air expansion under existing circumstances. Italy will be prevented by the terms of the Peace Treaty from effectively denying aviation rights to Soviet interests.

Except for Italy, however, there is at the present time an unbroken barrier to Soviet air expansion from the North Sea to the Persian Gulf. The UK has decided to attempt no further air agreements with the Satellite States, on the grounds that Soviet-controlled airlines in these countries would be enabled to engage in inter-continental operations and access to the USSR would still be denied. Moreover, the US and UK have agreed to permit no Soviet or Satellite aircraft to overfly their respective German and Austrian zones of occupation, except when agreeable to the US-UK Zone Commanders. Although Polish aircraft are still operating to Paris, the US and the UK can terminate, whenever desired, these operations which involve overflight of the US-UK Zones Germany. Greece and Turkey have rejected all overtures for air agreements by the Satellites. Iran, contiguous to Turkey's eastern border, has managed to stop illegal Soviet commercial air operations within its territory and has refused Soviet offers to form a Soviet-Iranian airline. Because the only remaining practical route for commercial operations to the eastern Mediterranean is through Italy, the immediate importance of Italy to the Satellite airlines becomes apparent.

Although the Italians will be inclined to cooperate with the Western Powers in denying air rights to the Satellites, they will be able to deny them only to the ex-enemy states, Rumania, Bulgaria, and Hungary. By the provisions of the Peace Treaty, which insures to all members of the UN equal opportunity in obtaining international commercial aviation rights in Italian territory, Poland and Yugoslavia are eligible to demand the landing rights necessary for commercial flights through Italy to the Mediterranean and the East. At best, Italy can under present circumstances only delay expansion through temporizing tactics.

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An additional outlet serving Soviet objectives will probably be provided ultimately by Czechoslovakia, which has air agreements with the US, France, and Turkey. As soon as the Communists gain control of Czechoslovak aviation, the USSR will have gained an instrument for Soviet air operations to the US, Western Europe, and the Middle East.

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TOP SECRET**SOVIET PLANS FOR THE CZECHOSLOVAK MUNITIONS INDUSTRY**

The Czechoslovak munitions industry is being developed as an important subsidiary of the Soviet munitions industry and may become a center for armaments production and research for the whole Satellite group. Although Czechoslovak industry is now engaged primarily in the production of peacetime goods, there are indications that armament production will soon be stepped up when full coordination between Czechoslovak and Soviet requirements has been achieved.

Before World War II, Czechoslovak was second only to Germany in possessing the most highly-developed munitions industry in central Europe. During the war, the industry's potential was considerably augmented by the Germans, and the Czechoslovaks acquired experience in the manufacture of guided missiles, acoustic mines, and other modern weapons. Immediately after the war, the munitions industry was drafted into the more pressing task of assisting in peace-time economic recovery, and Czechoslovakia relied primarily upon the USSR for its weapons and equipment. Because Soviet material proved to be obsolete and of little value except for training purposes, the Czechoslovak Army has rejected the idea of duplicating Soviet arms production and now plans to produce weapons best suited to its own needs while still maintaining close cooperation with the USSR.

The Czechoslovak armaments industry is capable of supplying all major types of conventional ground armaments in quantities far exceeding the needs of the Czechoslovak Army. The industry, which is almost completely nationalized, is largely situated in the western part of the country around Prague, Pilsen, and Brno. Skoda, which has eleven plants, is the country's largest munitions concern and specializes in the production of light, medium, and heavy artillery and of armored vehicles. Ceskomoravska-Kolben-Danek A.S. (C.K.D.), with five large plants near Prague, ranks next to Skoda in the metal working industry and is the principal producer of tanks and other armored vehicles. Ceskoslovenska-Zbrojovka, which has eight plants in the vicinity of Brno, is the largest manufacturer of small arms. Explosives are produced mainly by Nobel Dynamit A.G., whose main plant is at Bratislava. Numerous smaller firms produce a wide range of arms components, explosive devices, and ammunition.

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While awaiting detailed implementation of a new armaments policy, the Czechoslovak Government has been laying the groundwork for greater exploitation of the industry's potential. In addition to its production of peace-time goods, the armaments industry is filling armaments orders from Yugoslavia, Argentina, Switzerland, Sweden, Afghanistan, Iran, and the USSR. This activity serves to maintain Czechoslovakia's position in the foreign market and also aids national recovery by providing needed foreign exchange. Skoda has been principally concerned with the repair and rehabilitation of German artillery for shipment to the USSR. Skoda and other firms have also been disposing of accumulated stocks of weapons. Ceskoslovenska-Zbrojovka, for example, recently was reported to have sold \$25 million worth of small arms and ammunition to a Swiss concern. Disposal of this stock may indicate that the factory is planning conversion to new-type weapons.

The activities of the Czechoslovak munitions industry in carrying out an extensive planning and research program are of considerable strategic importance. The Government has appropriated large sums for this purpose, and extensive use is being made of German technical secrets and scientific personnel. Moreover, many munitions plants are being transferred from the more vulnerable Bohemia-Moravia area to Slovakia. This move has been encouraged by the USSR and satisfies the desire of the Czechoslovaks to move strategic industries further away from Germany. In making this eastward shift, the Czechoslovaks have placed strong emphasis on the construction and restoration of underground plants. The armaments machinery from the main Skoda plant at Pilsen has been moved to Slovakia; all Skoda funds for development have been allotted to the restoration of a war-damaged plant in Slovakia, and several new underground plants are being constructed in the same area. This eastward shift undoubtedly reflects Soviet approval of a long-range program for the expansion of armaments production in Czechoslovakia.

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TOP SECRET**THE DETERIORATING SITUATION IN INDIA**

Although communal disorders have decreased in India, the overall situation has grown worse. Near-chaotic conditions prevail in both the Dominion of India and Pakistan, and relations between the two governments have become so strained that Pakistan has requested the other countries of the British Commonwealth to conduct an investigation.

Neither India nor Pakistan is able to take the action necessary for coping with a serious breakdown of transport and communications facilities, floods, and near famine. Both governments are most handicapped by the force of communal feeling which, with British control largely removed, has so permeated the armed forces that they are incapable of maintaining order. Pakistan's difficulties have been particularly increased by the disruption of transport and communications before the government was more than rudimentarily established at Karachi.

Official relations between the two governments have been strained almost to the breaking point by the continued communal killings and the tendency of leaders in each dominion to condemn the other government for failing to take effective steps to improve the situation. Relations are further strained by the inability of both governments to facilitate the continued mutual transfer of minorities, large groups of whom have been held up by floods and railway dislocation. These refugee groups, aggregating probably more than a million people, are threatened with epidemics, are exposed constantly to attack, and are frequently near starvation. In their present strained relationship, India and Pakistan might well be thrown into internecine war through an increase of communal feeling caused by the plight of the refugees. Another grave possibility is that, as a consequence of further massacres of Moslems, the tribesmen of Baluchistan and the North West Frontier Province will march eastward to avenge their coreligionists.

The Sikhs, whose organized killings of Moslems in East Punjab originated the current communal disturbances, remain intransigent. A prominent Sikh leader recently stated that the disorders could be expected to grow worse and to continue for another three months.

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The general situation in India is further aggravated by the problem of the petty maritime State of Junagadh (Hindu-populated, surrounded by Hindu territory, and encompassing two vassal states which have acceded to India) whose Moslem ruler has decided to accede to Pakistan. The Government of India, claiming that this decision of the ruler violates the interests of his subjects and constitutes a threat to the security of India, has dispatched troops to the borders of the state. The Indian Government has particularly angered Governor General Jinnah and the Government of Pakistan by intimating that the accession of Junagadh to Pakistan will be recognized only if supported by a referendum of the state's people. This highly irritating situation, though unlikely in itself to lead to open conflict, greatly increases the strain between the two governments.

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TOP SECRET**DUTCH AND INDONESIAN VIEWS ON NEGOTIATIONS**

The recent appointment of the US member of the Three Power Commission for Good Offices has advanced efforts to settle the Dutch-Indonesian dispute from fact-finding--as exemplified by the efforts of the Consular Commission in Batavia--to the problem of finding a basis for renewed conversations between the Netherlands and the Indonesian Republic. The difficult task facing the new Commission is indicated by the wide divergence in the announced views of the Dutch and Indonesians concerning an acceptable basis for further negotiations.

The Premier of the Indonesian Republic, Amir Sjarifoeddin, has declared that the Linggadjati Agreement cannot be the basis for future negotiations because it has been abrogated by Dutch military "aggression" and by the Dutch unilateral establishment of autonomous areas. According to Premier Sjarifoeddin, the Republic now considers itself free of any commitments as a member of a future United States of Indonesia (USI) and will continue the struggle until Republican de jure and de facto authority is recognized over Sumatra, Java, and Madura. Sjarifoeddin and other Republican spokesmen have stated that no negotiations will be undertaken unless assurances are given that Dutch troops will be withdrawn in three stages: first to the demarcation lines of 31 October 1946 (following which withdrawal negotiations would probably begin); then from all Republican territory; and, finally, from the whole of the Indies Archipelago. Republican sources are unanimous in their belief that no eventual agreement will be implemented by the Dutch unless it is thoroughly guaranteed and supervised by a third power.

The Dutch, according to Premier Beel, agree that the Linggadjati Agreement, as such, has been abrogated by recent developments, but maintain that a political foundation for rehabilitation may be achieved on the basis of the principles of the Agreement, to which the Dutch Government feels itself morally bound. In other words, the Dutch wish to establish a sovereign USI which will have authority over the entire archipelago. Within this USI, the Dutch want a Republic, under "constructive" leadership, which will exercise authority over Sumatra, Java, and Madura. The Dutch have declared that they will not evacuate territory taken since 20 July

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without "conclusive guarantees" and without consultation with the populations involved, because the Dutch fear that extensive reprisals would be taken by the Republic against all persons who had not resisted Dutch occupation. Moreover, such guarantees would be acceptable to the Dutch only if offered by a Republican government which had accepted the Dutch view that the maintenance of order in all parts of the archipelago is the responsibility of the Netherlands Government and must be secured through a joint police force. (The question of the joint police force was one of the points over which negotiations broke down prior to the outbreak of hostilities on 20 July.) Although Dutch leaders have not indicated their attitude toward third-power supervision, they probably would not accept such supervision of an eventual agreement. The Dutch view is that political readjustments between Indonesia and the Netherlands are constitutional questions and therefore not open to third party concern.

The irreconcilability of the Dutch and Indonesian positions, sustained by the belief of both sides in the justice of their respective cases, indicates that the process of reaching a basis for negotiations will be protracted. Meanwhile, in order to restore their occupied areas to some semblance of productivity, the Dutch are expected to proceed unilaterally in the organization of a political administration and in the integration of this administration with the Netherlands.

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TOP SECRET**CHILE'S COMMUNIST SCARE**

President Gonzalez Videla's charge that the current Communist-led Chilean coal strike constitutes a "showdown" between his Government and international Communism does not appear to be substantiated by the evidence he has brought forward to support it. Although it is true that Chile has a "strategic location" from the standpoint of Communist aspirations in the Western Hemisphere and that the Chilean Communist Party attaches great importance to winning the strike, there are good reasons for doubting that a "showdown" is intended. If the Communists were determined to paralyze the Chilean economy, they would certainly have called out some of the other unions under Communist control. Furthermore, the strike appears in all respects to be a typical Chilean employer-worker dispute over wages and working conditions.

Any Communist attempt to force a showdown with the Chilean Government at this time would constitute a sharp departure from the recent pattern of Communist activities in Latin America as a whole and in Chile, in particular. These Communist activities have been clearly predicated on the view that all-out struggles with the Latin American governments must, in the present phase of US-USSR relations, be postponed so as to avoid provoking repressive measures. Recent reports from Chile indicate that the Chilean Communist Party has endeavored to follow this pattern to the letter. Any statement by Gonzalez Videla on Communism in Chile must, moreover, be read in the light of the fact that Chile has an application for a \$40 million loan before the World Bank.

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TRENDS IN BRIEF

GENERAL

A substantial proportion of world Jewry does not favor partition as a solution of the Palestine problem (see page 1).

An increasing number of UN representatives doubt that the UNSCOP majority proposal for the partition of Palestine can obtain the required two-thirds support in the General Assembly. These representatives consider that the probable abstention of the UK, the Netherlands, and Belgium, and possible similar action by some Latin American representatives, will prove decisive in preventing acceptance of the report.

Strong Arab opposition to the UNSCOP majority report continues. Although no organized uprising is likely to take place in the Middle East until the UN General Assembly has completed its deliberations, the general strikes scheduled for 3 October in Palestine, Lebanon, Syria, Iraq, and Saudi Arabia may lead to violence.

WESTERN EUROPE

The likelihood increases daily that the Ramadier Government will fall following the municipal elections, and the rivalry between the French Communists and DeGaulle's supporters is intensifying in anticipation of that event (see page 3).

Further UK Cabinet changes, designed to increase the Government's effectiveness in meeting critical problems, can be expected shortly (see page 4).

Although recent events in Italy have weakened Communist prestige, the Communists will probably not take direct action to overthrow the Government but may attempt to set up a separate Communist state in the north (see page 6).

German strikes and demonstrations can be expected following the resumption of plant dismantlings by the US-UK. German

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public opinion on reparations has altered from the belief that a considerable portion of German capital goods should go to victims of Nazi aggression to the belief that any plant, not solely military, should be spared. Although the threat of force and the discontinuance of food imports might control demonstrations, such methods may also interfere with coal production in the Ruhr at a critical time and intensify public opposition to the occupation.

EASTERN EUROPE

Soviet officials in Berlin and their adherents in the Socialist Unity Party (SED) apparently are planning to merge the Soviet sector of Berlin with the Soviet Zone following the Council of Foreign Ministers' session in London. This decision seems to be predicated upon the Soviet conviction that the Council will fail to reach agreement on Germany. The Soviet Zone headquarters probably will be transferred to a city less accessible to the Western Powers. Although the USSR does not intend, initially, to risk compelling the other powers to evacuate Berlin, quadripartite government will become even less of a reality than it is now. In addition, the USSR plans to strengthen the central government of the Soviet Zone at the expense of the governments of the component states and will maintain the eastern boundary of Germany at the Oder-Neisse line.

The campaign of the Rumanian Communists to obtain popular support for the Greek guerrillas represents the first instance of an organized publicity and fund-raising drive for this purpose in Eastern Europe. The campaign is being promoted with customary Communist fanaticism and may be an effort to: (1) divert world attention from the direct military support supplied by Yugoslavia, Bulgaria, and Albania; (2) demonstrate that support for the Greek partisan cause springs from the masses; and (3) establish the basis for propaganda designed to promote international brigades.

The determination of the Eastern European Communist regimes to consolidate their positions rapidly is indicated by the execution of Petkov in Bulgaria and an intensified program of

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"treason trials" in other Satellite States. The unexpected mildness of Bulgarian repercussions to Petkov's death may have persuaded the Communists that they can proceed with impunity against the remaining democratic leaders. The trials of Jaganovich and Gazhi (Croat and Serb Peasant Party leaders) have already started in Yugoslavia. Mikolajczyk in Poland, National Peasant Leader Iuliu Maniu in Rumania, and Hungarian Opposition Leader Pfeiffer will probably be victims shortly of this same type of "justice."

The Communist Party in Finland has launched a bitter attack on moderate parties in preparation for the national elections in March 1948. By means of wild-cat strikes and persistent political pressure for the abolition of wage controls, the Communists seek to undermine Social Democratic control of the labor movement and to disrupt Finland's delicate wage-price balance. The ensuing economic chaos would endanger fulfillment of reparations deliveries to the USSR and thus probably precipitate Soviet intervention and the subsequent seizure of the Government by the Communists. Such Communist tactics have increased the political resistance of the Social Democratic Party which may decide to seize the initiative from the Communists and to demand elections prior to March 1948, in the hope that a Parliament with a smaller Communist representation could take more aggressive action against efforts to disrupt the Finnish economy.

NEAR EAST-AFRICA

Iran may fall into the Soviet sphere of influence unless it takes steps to achieve the internal stability without which no effective resistance to Soviet encroachments can be made (see page 8).

FAR EAST

The Soviet proposal for US-USSR withdrawal from Korea, although designed to promote Soviet political objectives in Korea, serves to strengthen the US position in presenting the Korean question to the UN (see page 9).

The threatened collapse of the Chinese national currency may produce a serious political crisis and eliminate governmental support of Nationalist military forces (see page 12).

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WESTERN HEMISPHERE

The election of Argentina to the UN Security Council may help to bring about an increased acceptance of international responsibilities by the Peron regime (see page 13).

Canadian import restrictions on consumers' goods from the US will probably be imposed within a few weeks. This action will be taken by the Dominion Government in an effort to check Canada's increasing adverse trade balance with the US, which reached a record high of nearly \$573 million during the first seven months of 1947. As a further solution of its dollar difficulties, Canada may also be expected to ask the US for a loan of at least \$500 million, to be supplemented possibly by a loan from private bankers. The Canadian Government desires to be included within the scope of the European recovery program by US assurance of indirect dollar help through the procurement of supplies in Canada and through payments from third countries receiving aid.

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TOP SECRET**JEWISH REACTION TO THE UNSCOP REPORT**

An analysis of Jewish reaction to the majority report submitted by the UN Special Committee on Palestine (UNSCOP) reveals that a substantial proportion of world Jewry, for varying reasons, does not favor partition as a solution of the Palestine problem. The extreme Zionists reject partition and claim all of Palestine and Transjordan for a Jewish state. The moderate Zionists accept partition with reservations, hoping that it will lead to the acquisition of all Palestine and possibly Transjordan. The non-Zionist Jews, large in number but generally non-assertive, reject partition, maintaining that the primary interests of world Jewry are jeopardized by the attempt of a militant minority to build a national state on the basis of a religious faith. (In particular, most Jews in the Arab states, other than Palestine, fear that Zionism will antagonize the Arabs and thus endanger the long-established and relatively-secure minority position of the Jews.)

The extreme Zionists are represented in Palestine by the Stern gang and the Irgun Zvai Leumi and in the US by the United Zionists-Revisionists of America and the Hebrew Committee of National Liberation. These organizations have rejected both UNSCOP reports and are continuing their terrorist activities in Palestine. The Irgun Zvai Leumi has taken the stand that any attempt to solve the Palestine problem by partition would be "tantamount to a historical national disaster." Both organizations have called on the Jews to prepare for a long war, not only against the British but also against those Jews who are willing to accept partition. The United Zionists-Revisionists are in complete sympathy with the terrorists and maintain that the Jews are not prepared to trade "national" territory for purposes of expedience.

The moderate Zionists, represented chiefly by the World Zionist Organization and the Jewish Agency, favor the UNSCOP partition plan but with certain reservations. The immediate Jewish Agency response was "pleasure and surprise tempered with caution." The Agency was pleased by the provisions for an independent Jewish state and for large-scale immigration into

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Palestine but expressed objection to the suggested internationalization of Jerusalem and the omission of Galilee from the proposed Jewish state. It has called upon the US to take the lead in implementing the plan, but it is also actively investigating the possibility of putting the plan into effect independently. The Agency, which is not worried by the prospect of civil war in Palestine, has repeatedly asserted that it has sufficient armed forces to defend a Jewish state against the Arabs, and it is confident of receiving aid from abroad--fighters from the DP camps of Europe and money and arms from the US. Moreover, the Agency believes that once Arab-Jewish hostilities break out, most of the world will be sympathetic toward the Jews and further support will be forthcoming from Western Europe, the US, and South America. The Agency thinks that with such support the Jews might be able to enlarge the Jewish state to include all of Palestine and possibly Transjordan as well. Thus, even the moderate Zionists do not look upon partition as a final solution to the Palestine problem. (The World Zionist Organization has commented favorably on the majority report but has announced that detailed comment will be reserved for presentation to the UN General Assembly by the Jewish Agency.)

The leading representative of the non-Zionists is the American Council for Judaism. The Council praised UNSCOP for its conscientious effort to find a solution but is opposed to the establishment of a sovereign state on church-state ties. The president of Hebrew University in Jerusalem, who is strongly backed by the Council, claims that partition will arouse the resentment of large numbers of Jews and that peace can be brought to the Middle East only through a clear-cut policy of Jewish-Arab cooperation.

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POSSIBLE FALL OF RAMADIER GOVERNMENT

The rapid deterioration of economic and financial conditions in France indicates that: (1) the Ramadier Government will probably fall following the municipal elections; (2) DeGaulle may be called upon to form a new government; and (3) the Communists will make a determined and immediate effort to gain enough votes both to prevent the return of DeGaulle and to enter the Government.

As supplies of French dollars, food, and coal decrease, dissatisfaction with the Government will grow, lessening Ramadier's chances of survival. Although the municipal elections do not affect the composition of the national Government, they do indicate the relative strength of political parties. Election results, therefore, will influence the selection of a new premier.

If DeGaulle's Rally of the French People gains enough votes in the elections, DeGaulle may be asked to form a new government. The Communists know that the first act of a DeGaulle government would probably be to outlaw the Communist Party. They are therefore making every effort to match DeGaulle's gains and, by making it politically inexpedient for the President to call upon DeGaulle, to force the formation of a new coalition cabinet in which they would be represented. The Communists are not sufficiently strong to promote an effective general strike if DeGaulle comes to power; their only chance for legal survival as a party in France, therefore, lies in making a strong showing in the coming elections.

Anti-US propaganda has recently been intensified in the Communist-controlled press. By resuming a campaign of sporadic strikes, demonstrations, and slowdowns, the Communists hope to disrupt implementation of the European recovery program and to capitalize upon the consequent disappointment of French hopes for US aid. Because the Communist Party's chances of victory over DeGaulle are barely even, the violence of the present campaign may be designed largely to prepare French Communists psychologically for going underground and mobilizing groups for a future attempt to seize power by force.

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IMPLICATIONS OF THE UK CABINET CHANGES

The UK Cabinet changes so far announced by Prime Minister Attlee are designed to enable the Government to cope more efficiently with the immense British economic problem. Further Cabinet changes having important political implications can be expected and will probably be accomplished before Parliament reconvenes on 20 October.

Sir Stafford Cripps has been elevated from president of the Board of Trade to a newly-created post having over-riding power with respect to all trade, economic planning, and production. Cripps, who is not notably pro-US, is the only Minister who has emerged from the recent critical months with increased prestige. Although his new position puts him second in importance only to Attlee, he is generally considered (unlike other important Ministers) to have no ambition to be Prime Minister. With the retirement of Arthur Greenwood, the responsibility for the Government's legislative programming has been added to Deputy Prime Minister Herbert Morrison's already broad duties. Morrison is turning over to Cripps those of his responsibilities that relate to economic coordination.

These changes do not clearly indicate Attlee's intentions in the political sphere, especially his intentions regarding the Cabinet left-wingers: Aneurin Bevan, Shinwell, and Strachey. If these three members are dropped, the Cabinet will be a more homogeneous group, able to act with greater boldness and resolution; but their departure may cost the Cabinet the support of some 20% of the Parliamentary Labor Party--that faction which has generally favored extreme left-wing views. If the left-wing Ministers stay, however, there will continue to be indecision and compromise on all matters where the Socialist program interferes with the production drive.

Of the three, Shinwell is the most likely to be displaced from his present post. His competence as Minister of Fuel and Power is questionable, and his impolitic public utterances have occasionally damaged the Government. His high position in the Labor Party, however, and his popularity among rank-and-file workers will probably make it necessary to find an important new position for him. Aneurin Bevan, who has frequently opposed the moderate Laborites who dominate the Cabinet and who intrigued against Attlee during the August crisis, is less likely to be displaced although his particular responsi-

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bility, the national housing program, is being sharply curtailed under the new emergency policy. Attlee may prefer, however, that Bevan's high abilities remain in the service of the Government, perhaps in heading another Ministry, rather than in reinforcing Labor's left-wing critics. Strachey, Minister of Food, will probably stay if Bevan stays, or depart if he does. Other possible changes include the elevation of Minister of Defense Alexander to the peerage and the replacement of Minister of Supply Wilmot. Additionally, there will probably be several replacements at the junior ministerial level.

Rather broad changes in the make-up of the Cabinet, having considerable political significance, appear likely within a week or two--their announcement perhaps timed to steal the thunder of the annual Conservative Party convention, now in progress.

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TOP SECRET**PROSPECTS FOR DIRECT COMMUNIST ACTION IN ITALY**

The USSR's reported instructions to the Italian Communists to bring about the fall of the De Gasperi Government by any possible means apparently do not foreshadow immediate revolutionary action in Italy but may presage intensified Communist efforts to set up a Communist-controlled state in northern Italy. Recent developments have lowered the prestige of the Communist Party in Italy and have reduced its prospects for success in the national elections. This encouragement to direct action, however, seems more than counterbalanced by the fact that conditions are not yet favorable for such action.

Communist prestige has progressively declined in recent weeks. The first blow came from the Government's rapid settlement of the general strikes which the Communists had hoped would discredit and overthrow De Gasperi and from the apathetic response to the "hunger march" of 20 September. The second blow was the strong anti-Communist speech of right-wing Socialist Leader Saragat and the pro-Government remarks of Republican Leader Pacciardi, both of whom were expected to support the Communist-sponsored motion of no-confidence in the Government. A third setback resulted from the favorable action of the US to De Gasperi's appeal for aid before the European recovery program could be implemented. A fourth serious blow to Communist prestige was dealt by the USSR itself in vetoing for a second time Italy's admission to the UN.

De Gasperi has correspondingly gained strength through these developments. He may further reduce Communist opposition by creating a more representative government through the inclusion in his Cabinet of Socialists and Republicans. The diminishing prospects for Communist success in the elections next spring, however, do not necessarily increase the possibility of direct Communist action to seize power in the near future. The Communists normally incite to insurrection only when chaos and dissatisfaction exist among the masses and in the Government and when the masses can be brought to support an insurrection through crippling strikes. Discontent exists in Italy, at least to a limited degree, but so far the Communists have been unsuccessful.

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ful in inciting the workers to effective action. The Party is, therefore, unlikely to attempt revolutionary tactics throughout Italy at this time. When the Communists are convinced that they cannot achieve control of the Italian Government by peaceful means and that they cannot effectively sabotage the US aid program, they can be expected to concentrate upon northern Italy. Because of its importance as an industrial area, they will seek to separate it from the rest of the country and to establish it as an independent Communist-controlled state. In this objective, the Party will be favored by its political superiority to the other parties, domination of labor unions, a relatively strong para-military organization, and the proximity of Yugoslav troops and other Soviet-directed assistance. If successful, such Communist action would paralyze the Italian economy and would represent a severe blow to the European recovery program.

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IMPLICATIONS OF IRAN'S CRITICAL INTERNAL SITUATION

The continued failure of the Iranian Government to rectify critical internal conditions is seriously jeopardizing Iranian stability and consequently is weakening Iran's ability to cope with disturbances of Soviet origin which are expected to follow rejection of the Soviet oil proposal by the Majlis.

Widespread corruption practiced by civil and military officials and the discriminatory policies of the Government against tribal groups are alienating major population elements whose support would be essential to effective Iranian resistance. Throughout the country, the authorities continue to give only lip-service to long-standing promises of economic and social reforms. Moreover, despite the determination of all major political factions to resist Soviet encroachment, internal political conflicts may prevent Iran from implementing any effective plans for resistance.

The support of the Western Powers and of the UN, in the event of any Soviet action prejudicial to Iranian independence, will have no lasting effect unless the Iranian Government makes strenuous efforts to bolster its internal stability by: (1) resolving the personal conflicts among the Shah, the Prime Minister, and the Chief of Staff; (2) endeavoring to obtain the loyalty and cooperation of tribal and other population elements; and (3) initiating long-overdue economic and social reforms. Without these reforms and with a continuation of the present Iranian technique of solving international problems by procrastination and by reliance upon the support of other powers, Iran will ultimately be absorbed into the Soviet sphere of influence.

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THE SOVIET PROPOSAL FOR US-USSR WITHDRAWAL FROM KOREA

The proposal recently made by the Soviet Delegation to the Joint Commission in Seoul, to the effect that the US and the USSR should begin joint withdrawal of occupation forces from Korea on 1 January 1948, was prompted by motives fully consistent with Soviet political objectives in Korea. The mere announcement of the proposal is intended to:

- (1) Turn Korean sentiment against the US as the power favoring further "occupation" and "trusteeship."
- (2) Obscure the issue for the less interested and relatively uninformed UNGA members who may be unaware that the USSR is playing with a political "cold deck" in Korea, in that it now possesses the means of obtaining control of all Korea if withdrawal takes place. These nations will be tempted to look on the proposal as an adequate solution to the problem, thus preventing any decisive UNGA action at this time.
- (3) Obscure the issue also for the US public and Congress, who may want to accept this opportunity to reduce US commitments abroad.
- (4) Discredit the political Rightists in South Korea who have already made strong appeals for the retention of US troops. Such appeals puts the Rightists in the position of advocating continued occupation by a foreign power, thus playing directly into the hands of Communist propagandists.
- (5) Continue Joint Commission discussions and thus permit the 100-man Soviet delegation to remain in Seoul and continue political organization in preparation for a possible, though unlikely, UN-supervised election of a provisional government for Korea.

The withdrawal of US-USSR troops would certainly result in the establishment of Korea as a Soviet satellite in the Far East. Communist disruption of the political structure of South Korea would be inevitable, since an estimated 30% of the population there is already in the Communist fold. This fifth column would be mobilized to prevent, by force, any attempts at effective government. At the same time, the North Korean People's Army, estimated at 125,000 to 300,000, would be able to march south and seize effective control of all South Korea. This Army appears to have undergone

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rapid development recently and has been assuming numerous security duties from the Soviet forces in North Korea. Evidence for this is seen in the reduction of Soviet occupation forces from 68,500 to 45,100 in the past few months. This new figure represents approximate Soviet parity with US forces in South Korea of 45,983 and indicates a possible Soviet attempt to anticipate negotiations with the US over the schedule of withdrawal. Any request by the US for the demobilization of the North Korean People's Army, prior to withdrawal, will be futile because this force has no legal existence in the eyes of the North Korean People's Committee and the USSR.

The Soviet bargaining position in Seoul has been weakened by this proposal which indicates a revision of the Moscow Decision on Korea. Such revision is beyond the province of the Joint Commission. Thus, the US case for seeking UN action is strengthened because the UN can be cited as the proper forum for the discussion of such a proposal. The USSR has sought earnestly to avoid such a discussion because it would permit public perusal of the Soviet record in Joint Commission negotiations. Submission of the case to the UNGA will also allow the US to propose a recess of the Joint Commission and thus effect the removal of the Soviet Delegation from the US Zone.

If the action taken by UNGA is indecisive, the US may be faced with the necessity for proceeding with a long-term, politico-economic program for South Korea. But even such an over-all program gives no assurance of success. The USSR has made it clear that it will only tolerate a Soviet-dominated regime in Korea. Hence, any US attempt to set up a more or less permanent structure in South Korea will establish an undeclared battlefield along the 38th parallel which will require US occupation forces to remain indefinitely. The psychological effect upon the Korean people of continued occupation would undoubtedly jeopardize the success of a US-sponsored government. Furthermore, there is no assurance that the self-seeking Rightist leadership will ever cooperate with the Moderates in establishing a political structure strong enough to withstand the disruptive influence of the Left. Lastly, the economic cost to the US of such a program would involve over a five-

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year period a minimum of \$500,000,000, exclusive of troop maintenance. In the light of these considerations, US representatives in Korea have suggested that Korea's strategic significance to the US should be thoroughly re-examined. If it should be decided that Korea can be abandoned without seriously imperiling US security, the Soviet proposal opens the way to an expeditious withdrawal.

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ECONOMIC SITUATION IN CHINA

The rapid mounting of inflation in China in recent months clearly illustrates the importance of the psychological factor in China's economic situation and indicates the sensitivity of Chinese public opinion to the whole question of US aid for China. Principally because of public reaction to General Wedemeyer's departing statements, Chinese inflation has accelerated greatly. In Shanghai's black market, which directly influences the domestic price structure in leading Chinese cities, the US dollar currency rate jumped 38% to CN\$ 63,000 in September. The price of rice in Shanghai rose 25% in the same month, despite favorable harvest reports.

The Chinese national currency still possesses some value as a medium of exchange. It is unlikely, however, that runaway inflation can be prevented unless US assistance is extended or the Chinese are assured that such assistance is forthcoming. The Chinese National Government is patently unable to stem the inflationary tide by its own devices if civil conflict continues.

Since the beginning of 1947, the national note issue, now around CN\$ 14 trillion, has nearly quadrupled. Budgetary receipts of the National Government continue to meet only 40% of war-inflated expenditures. Within the past twelve months, the Government has lost more than half of its reserves in gold, silver, and foreign exchange; its efforts to conserve the remaining US\$ 260 million reserves will lead to further cut-backs in the flow of imports, thus intensifying China's commodity shortage.

The real danger of runaway inflation for the Chinese Government lies in the possibility of an eventual collapse of the national currency. Such a collapse could produce a political crisis of the first magnitude and deprive the Government of the means of giving adequate financial or material support to Nationalist military forces.

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ARGENTINA'S ELECTION TO THE SECURITY COUNCIL

Argentina's election to the UN Security Council seems likely to inaugurate a new phase in Argentine acceptance of certain international responsibilities which the Peron regime has hitherto avoided.

President Peron now apparently favors Argentina's entry into the International Emergency Food Council--a step which would bring Argentina's huge exportable food surpluses under international control, tend to reduce the exorbitant prices Argentina has been charging for them, and prevent their use as a political weapon in international affairs. Peron also seems to favor an early relaxation of Argentine foreign and domestic trade controls, most of which have been contrary to the principles of the International Trade Organization. Argentina's actions in the Council and with regard to international cooperation in general will necessarily be limited to some extent by Peron's need to conciliate the strong Nationalist opposition to the recent trends in his foreign policy. However, domestic propaganda since Argentina's election to the Council indicates that the prestige accruing from membership in the most powerful international body will be fully exploited, as a dividend from the Peron policy of collaboration with the US, to offset Nationalist appeals to Argentine independence.

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TRENDS IN BRIEF

GENERAL

Arab opposition to the UNSCOP report is so unanimous and so bitterly hostile that a holy war threatens soon to break out in the Middle East, possibly even before the UN General Assembly completes its deliberations (see page 1).

Reported Soviet willingness to accept all present applicants to UN membership is probably based upon the expectation that six of the eleven candidates will generally support the USSR. Albania, Bulgaria, Finland, Hungary, Outer Mongolia, and Rumania are the prospective members who might be expected to strengthen the Soviet bloc. The USSR would probably veto again the application of Italy, however, if it were put to a separate vote, and this action would further discredit the Communists in Italy.

WESTERN EUROPE

The Benelux Customs Union establishes the Low Countries as the third most important trading area of the world and sets a pattern for the formation of a customs union for Europe (see page 4).

Further reduction of the food ration in western Germany and a consequent decrease in the production of coal in the Ruhr are foreshadowed by the prolonged drought in the US-UK Zones. The food ration in the Ruhr averages 1,450 calories daily; stockpiling for the winter and the decrease in grain imports from the US may, however, necessitate a further reduction. The general harvest is expected to be 10 to 15% below last year's and the potato crop 20% lower; in addition, the shortage of fodder will seriously curtail the dairy industry and will cause extensive slaughtering of livestock.

Sharp dissatisfaction with the present Italian Government has been expressed by the right-wing (Saragat) Socialists and by the extreme-rightist Common Man Front. The Saragat followers have already indicated that they will support a no-confidence vote against De Gasperi on 27 September. The Common Man Front has increased the uncertainties surrounding the voting recently by branding the Christian Democratic Party, led by De Gasperi, as "...

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the enemy to be feared most." Should both parties support the no-confidence vote, such action would deliver Italy into the hands of the Communists. It is unlikely that the violently anti-Communist Common Man Front will desert De Gasperi at this time.

EASTERN EUROPE

Soviet propaganda attacks on the US have become increasingly violent since the convening of the UN General Assembly and have had a noticeable effect on the Soviet population. According to Soviet observers, Secretary Marshall's recent speech indicates US determination to "rule or ruin" the UN. In a personal attack on President Truman appearing in the 20 September issue of the LITERARY GAZETTE, the President is accused of proclaiming a US program "for invading the world" and of "straining for the laurels of the corporal from Munich."

Rumania's commitment to exchange grain for much-needed industrial equipment from Czechoslovakia and Poland, under the recently signed trade agreements, does not indicate that Rumania's food shortage is alleviated, but rather that the USSR considers increased industrial production to be strategically more important than the immediate food requirements of the Rumanian people.

The serious illness of Czechoslovak President Benes, which will keep him inactive for several months, will remove the principal stabilizing influence in the Czechoslovak political situation at the very time when the Communists are intensifying their attacks upon moderate parties.

NEAR EAST-AFRICA

The Turkish Government is concerned by the possibility that the US will favor the partition of Palestine. Although the Turks have done their utmost to support US policies, they feel compelled to support the viewpoint of their Arab neighbors in order to avoid seriously compromising their territorial security through virtual encirclement by unfriendly states.

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WESTERN HEMISPHERE

A new phase in Argentine foreign policy may have begun
with the Rio Conference (see page 6).

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ARAB REACTION TO THE UNSCOP PARTITION PLAN

The reaction of the Arab world to the UNSCOP report and to Secretary Marshall's statement that the US gives "great weight" to the partition plan recommended therein has been unequivocally hostile. Individually and collectively, officially and informally, the Arab States, Arab political leaders, Arab civic organizations, and the Arabic press have stated bluntly that the attempt to implement any scheme similar to the majority partition plan will lead to bitter armed conflict in the Near East. The Arab world appears to be perilously close to the point at which governments no longer lead the people but are dragged along in their wake. That point may well be reached with the beginning of an insurrection in Palestine. Such a development has been specifically anticipated in an official note agreed to by the Arab League's Political Committee in secret session at Sofar and presented to the US Legation in Damascus on 22 September.

Arab leaders maintain that, far from being partition, the plan is in effect mutilation, that it could never be implemented, and that if the British Mandate has been unworkable, this plan would be doubly so. They argue that the 40% Arab minority in the Jewish state would constitute as thorny a problem as the present 30% Jewish minority in the whole of Palestine and that no indigenous administration could be established in the Arab state because of Arab non-cooperation. Finally, the Arab leaders hold that the US and the UK are responsible for the situation in Palestine. The Arab States therefore threaten to sever relations with these two powers if an attempt is made to implement the UNSCOP partition plan.

In Palestine, the various Arab factions have been united by their opposition to partition. The dominant faction, represented by the Arab Higher Committee and led by the Grand Mufti, is the most extreme and revolutionary-minded group in the Arab world. The Mufti is reportedly making final preparations for a call to a holy war (jihad), which may start even before the UN General Assembly completes its deliberations. He recently told the press that the UNSCOP recommendations could not be implemented even at the cost of much bloodshed and suffering.

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"to all concerned." Although it is difficult to predict accurately how Arab resistance to partition will develop, it will certainly be far more intense and widespread than the sporadic violence of the 1936-39 Palestinian Arab revolt, which was essentially local in character and largely unorganized. The anticipated revolt may well spread throughout the Middle East, and an organized underground resistance movement is prepared to support it.

In Iraq, reaction to the UNSCOP recommendations has been swift and violent. Foreign Minister Jamali predicted that acceptance of the report would touch off an Arab uprising, not only against the Jews but also against the British, should the UK support partition and the establishment of a Jewish state. The US Embassy has received several hundred telegrams of protest, and precautions have been taken to protect the lives of US citizens. The Iraqi press has been unrestrained in attacking the US, the UK, and UNSCOP. In the event of an uprising in Palestine, the Government apparently expects (and will probably tacitly condone) the desertion of many officers and men from the army in order to serve in Palestine. It is also likely that the Government will finance guerrillas in Palestine so that, by "paying their way," they will retain the active cooperation of the Arab villagers.

Although the Saudi Arabian reception of the UNSCOP report was not so violent as that of Iraq, King Ibn Saud has predicted bloodshed in the Middle East. He has also implied that if the US supports Zionism, it may lose its traditionally-favored position in his country. Following Secretary Marshall's speech, Foreign Minister Emir Feisal (one of the most level-headed, moderate, and pro-US statesmen in the Arab world) asserted that to support partition would be the most dangerous step ever taken by the US in the Middle East. There are indications that Bedouin tribesmen from Saudi Arabia will take part in guerrilla warfare in Palestine.

The UNSCOP recommendations and Secretary Marshall's speech have received less notice in Egypt than in the other Arab States, principally because Egypt is preoccupied with its own private grudge against the UN over the handling of the Anglo-Egyptian dispute in the Security Council. However, on 16 September, at the

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instigation of the Arab League, a one-hour general strike was called, and the Secretary General of the League has warned that acceptance by the UNGA of either the majority or minority report will result in an Arab-Jewish war.

The Syrian Prime Minister recently declared that the Arab people must be ready to defend Palestine should the partition plan be put into execution. The note which the Government delivered to the US Legation on 22 September and which represents the views of all the Arab States asserted that the Arab Governments would not be able to restrain the feelings of their nationals and would be compelled to assist them to resist "aggression" in Palestine.

In Lebanon, the reaction to the UNSCOP partition plan has been similar to that in Syria. A leader of the Lebanese Moslem Youth Organization stated that Arab resistance to partition would probably assume the following pattern: (1) counterterrorism, (2) guerrilla warfare, and (3) a holy war in which all the Arab world would participate. This same leader has intimated that the Arab underground resistance movement is becoming increasingly well organized throughout the Arab world, notably in Syria where some 20,000 men might be expected to join an insurrectionary movement in Palestine.

There is no doubt that both the Arab Governments and the Arab peoples are violently opposed to partition, and that aid will be given, covertly by the Governments and overtly by the peoples, to an uprising of the Palestine Arabs. Any nation that actively or passively supports partition will incur tremendous hostility throughout the Arab world. If the US and the UK vote for partition, there is a strong probability that those Arab Governments whose power has traditionally rested on Western support will be overthrown by political and social reaction, and that the Arab States will orient themselves toward the USSR. In any event, Soviet influence will increase in the Middle East, and the economic and strategic interests of the Western Powers in that area will be vitally affected.

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THE BENELUX CUSTOMS UNION

The recent ratification of the Benelux Customs Union (which will become operative by 1 January 1948) establishes Belgium, the Netherlands, and Luxemburg (Benelux) as the third most important trade area in the world. Benelux, if successful, may facilitate the creation of a customs union of Europe and accelerate the further removal of barriers to world trade. In order to put Benelux into operation, the following measures will be taken: (1) the equalization of the tariff schedule of the Netherlands with that of Belgium and Luxemburg (which have been united by a customs union since 1921); (2) the gradual removal of customs barriers between the three countries, with a view to achieving complete freedom of trade within the area; (3) the establishment of uniform excise and luxury taxes; and (4) the appointment of permanent committees to consider problems concerning trade agreements with other countries.

Despite the economic benefits the participants will derive from the Customs Union, Benelux cannot be economically self-sufficient. The highly specialized industries and limited agriculture of the area require the importation of raw materials and plant equipment, as well as a large foreign market for exports. The Customs Union will, however, be of considerable service to the industries of the Low Countries. Because the economies of the participants are largely complementary, there will be no serious competition among their major industries. The removal of customs barriers will further the expansion of traditional industries in each country to meet a widened domestic market and will probably eliminate the inefficient production of certain items. This step should result in an increase in overall production and in a more profitable utilization of labor and production facilities. Agriculture in the Low Countries presents a more difficult problem to Benelux. Belgian farmers are worried about the removal of all duties on agricultural products, because they fear the competition of the lower-priced Dutch commodities. With full cooperation between the governments and the farmers, this problem should not, however, be a major stumbling block.

The disruption of prewar trade channels, particularly into Germany, has hindered the recovery of the Low Countries. Benelux strongly advocates the revival of German industry--within the limits

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of security--and considers this revival more important than any danger of competition from increased German output.

Besides the benefits which will stem directly from the Benelux provisions, the Low Countries will receive indirect benefits. Belgian-Dutch cooperation has already been given greater impetus by the formation of the Customs Union. Although the two countries maintained a sharp rivalry for the transit trade of Germany before the war, they have recently undertaken a coordination of that transport. This coordination has been accelerated by their joint efforts to reach an agreement with the US-UK Zones for shipment of occupation goods through Belgian and Dutch ports.

Although the Customs Union is not yet formally instituted and will not be fully effective before mid-1949, the powerful bargaining position of the Benelux delegation has already been recognized as an important factor at the meetings of international trade groups.

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**THE RIO TREATY AND PROSPECTS FOR ARGENTINE
COOPERATION IN HEMISPHERE AFFAIRS**

Both the Rio Treaty and the Rio Conference deviate conspicuously from the previously established inter-American pattern. The Treaty requires ratification by fourteen countries before going into effect (instead of becoming effective between ratifying nations in the order of deposit of ratifications) and will therefore not become operative immediately. The Conference elicited an unprecedentedly cooperative attitude on the part of the Argentines and may therefore mark the beginning of a new phase in Argentina's inter-American policy.

There is no reason to expect deliberate delay in the ratification of the Treaty. Nations that have not ratified the Treaty could not be represented at discussions among the ratifying countries and might thereby be placed at a disadvantage. Moreover, the Treaty neither greatly increases national commitments nor contradicts existing obligations to the UN, so that the sensitiveness of the Latin American legislative bodies on these two points is not likely to be excessive. Nevertheless, the delays inherent in the nature of modern governmental procedures make it improbable that the 14 necessary ratifications will be deposited in much under two years. (Even the Havana Convention of 1940, on the wartime emergency problems of the European colonies and possessions in the Hemisphere, was not ratified by the fourteenth republic until a year and ten months had passed. The average elapsed time between signing and ratification by the fourteenth republic for the ten inter-American peace treaties drafted between 1923 and 1936 was 26 months.)

That Argentina's actions at Rio may mark a new phase in Argentine policy is indicated by changes in three of the factors on which Argentine policy previously was based:

First, because the US and Argentine economies are competitive rather than complementary, Argentina has considered that its national interest lay in seeking the closest ties with available and potential customers, resisting its possible subordination to US economic interests and opposing the US and US-supported inter-

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American activities. Argentina accordingly depended on Britain for financial development and markets for its beef, on Germany for military ideas, on France for intellectual stimulus, and on the League of Nations for international activities. Even when the US had a commodity which Argentina could use, Argentina preferred to acquire ideas as well as trade items where it could sell. The basis for this policy no longer exists. The diminution of Britain's financial strength, the crushing of Germany's military power, the humiliation of France, and the presence of the US in the UN necessitated a reorientation. The recent Argentine-Soviet negotiations may indicate that Argentina was then considering the USSR as a counterpoise to US influence, but the suspension of the negotiations suggests that such ties were written off as impossible or too dangerous. The resuscitation of Britain as a world power, or the emergence of a Latin European bloc or of a Western European association of sufficient weight and importance to offer genuine trade advantages to Argentina, might cause Argentina in the future to revert to its former policy. But with no prospect of immediate change, Argentina has accepted, probably with some reluctance, the necessity for cooperation with the US and support of US international policy.

Secondly, because Argentina lies beyond the periphery of the US zone of predominance in Latin America, there was little that the US could do to impede Argentina's free pursuit of its national interests. But the power advantage of the US relative to the Latin American countries, always large, has been greatly enhanced as compared with the situation before World War II. Also, by strengthening its military ties with Brazil and with Mexico, the US has gained a fulcrum for exerting influence and possibly control over Argentina. While certain Argentine Army circles are still inclined to spurn US military assistance in order to avoid US influence, a more realistic group appears to feel that cooperation can be profitable for them.

Thirdly, Argentina has always considered that it possesses opportunities and capacities for development greatly beyond those of any other Latin American country, similar to those enjoyed by the US in the 19th Century. It has therefore regarded itself as a

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"competitor" of the US, not only economically but also in its determination to assume a position in South America analagous to that of the US in North America. Although its objectives in this direction remain largely unchanged, Argentina has altered the methods by which it seeks to realize them. The Peron peace proposal of July 1947, for example, was made public on the eve of the Rio Conference and was obviously intended to win acclaim for Argentina, but it was not used at Rio to oppose US aims. Argentina took the initiative, a week before the opening of the Conference, in giving the US an accurate outline of its projected activities at the Conference and an assurance of support. Similarly, it recently assured the US that the Argentine "third position" thesis--that Argentina need not follow either capitalist imperialism or Soviet Communism but can hold an independent position between the two--does not in any sense imply opposition to US international policy. Argentina will probably continue to seek fields in which it can assume leadership independent of the US, but there is no reason to doubt Argentina's intention to continue the policy, initiated at Rio, of complete support for the US internationally.

This policy, however, will not be an easy one for the Argentine Government to follow. In both the domestic and the international fields, two sometimes conflicting necessities must be reconciled and combined--cooperation with the US in all essentials of foreign policy, and independent competition with the US along lines dictated by national aspirations. Failure to yield sufficiently to the forces of nationalism might cost the Government its support; too great nationalistic expansion--for example, by large loans to other countries or excessive purchases of air materiel--might dangerously over-extend the country's economic commitments. Argentine authorities seem, in any case, to be viewing their situation realistically and to have every intention of holding their country to the course they have outlined to US representatives. If the present Government remains in power, it may be expected that cooperation with the US will continue, that Argentina will ratify the Rio Treaty, and that it will continue to feel it has a vital interest in the effective functioning of the inter-American system.

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TRENDS IN BRIEF

GENERAL

The UN General Assembly is expected to vote on a Palestine partition plan similar to that recommended by the UN Special Committee on Palestine (UNSCOP). An analysis of the probable voting shows that, even if the necessary two-thirds majority supports the plan, the vote will be very close. Decisive factors may well be the action of the Soviet-controlled delegates and the position of thirteen "wavering" states (see page 1).

WESTERN EUROPE

Recent actions and remarks by Foreign Secretary Bevin have tended to impair US-UK relations, although Bevin is fundamentally pro-US (see page 4).

The German economy in the US Zone may be strengthened by a law proposed by General Clay which will relax denazification in the Zone. Under the proposed law, an estimated 350,000 to 400,000 people, including all Nazis except those actually criminal, will pay a standard fine and escape trial. This will free thousands of skilled executives and administrators from legal restriction to manual labor.

The vital problem of German coal production and distribution is approaching a solution following a conference in Washington on measures to increase output and talks in Berlin on the question of German coal and coke exports to France. In Washington, US and UK representatives agreed to a twelve-point program for the management and control of coal mines in the bizonal area of Germany and to other measures calculated to raise coal production in the Ruhr. US and UK experts have agreed to French requests for German coke as well as their proposals for the gradual elimination of Saar coal from the German economy.

In the first effective action by anti-Communist Germans to reduce Communist influence over labor in western Germany, the Social Democratic Party (SPD) has taken the initiative in counter-attacking Communist penetration of labor unions. Select, labor-

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experienced SPD personnel are being given further training in trade unionism and counter-Communist tactics. These agents are then assigned to Communist-controlled plants to break down the existing Communist domination of the Works Councils.

The use of Dutch and Belgian ports in lieu of Hamburg and Bremen for shipments from the US to Germany is under reconsideration by the US and UK Zonal Commanders. Previously, General Clay had vetoed an agreement to use ports of the Low Countries and inland water transport because of the dollar savings to OMGUS. The use of the ports of Hamburg and Bremen, however, has overtaxed German railroads, allowed Ruhr coal to accumulate at the mines, and aroused the intense resentment of the Belgians and the Dutch over the diversion of shipments from their ports.

EASTERN EUROPE

In promoting disorders in the Free Territory of Trieste, the Yugoslav Communists are gaining time for the consolidation of their interests (see page 6).

Communist attempts to destroy the Czechoslovak National Front Government are being stubbornly resisted by the moderate parties (see page 7).

Recent reports of greatly increased Soviet troop strength in Bulgaria and the Caucasus are largely discounted (see page 9).

The presence of Yugoslav forces in former Italian territory and along the new Italian frontier will facilitate the smuggling of men and materiel to the Italian Communist para-military organization from Yugoslavia. Should the Communist Party lose the national elections in Italy, scheduled for April 1948, these troops could then be used, either directly or indirectly, to promote Communist revolutionary activity.

Increased Balkan solidarity, particularly in financial and economic spheres, is foreshadowed in a report that Yugoslavia and Bulgaria will issue a joint currency, the slav, to replace the Yugoslav dinar and the Bulgarian leva. Such a step would necessitate

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centralized control to govern the issuance of the new currency. The implementation of this plan would require a greater relinquishment of sovereignty by the participating states and would provide an opening for further consolidation of the Balkans by the USSR. A further purpose of the USSR in sponsoring this plan may be to counteract the propaganda value of the European recovery program and to demonstrate the economic solidarity that exists between the USSR and its Satellites.

FAR EAST

French policy in Indochina, as outlined in High Commissioner Bollaert's recent speech, fails to offer a solution to the French-Vietnam impasse. Rejection of Bollaert's proposals by the Viet Minh will lead the French to place greater reliance on a government under Bao Dai for negotiating peace with the Vietnam Republic (see page 10).

WESTERN HEMISPHERE

Chilean President Gonzalez Videla's gradual break with the Communists is now complete and definitive. The President recently declared publicly that: (1) Chile's future lies with the Anglo-Saxon oriented section of the world; (2) every Communist he had placed in office (in recognition of assistance in his election) had double-crossed him and had demonstrated the futility and hopelessness of attempting to fit the Communists into a democratic government; and (3) he will have nothing to do with any leftist party that cooperates with the Communists. Gonzalez' statements should be read in the light of the fact that they were made before a group of businessmen from the US from which Chile hopes to obtain financial assistance. However, his statement about leftist elements was clearly directed at his own Radical Party. His reference to the division of the world into Anglo-Saxon and Soviet-dominated spheres to a certain extent parallels recent pronouncements by President Peron, whom Gonzalez visited in July.

The Argentine National Alliance (ALN), a powerful nationalist political organization, has indicated its intention to support the Soviet Union in the event of war between the US and the USSR. Traditionally

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opposed to Communist ideology, the ALN ascribes its reversal to these considerations: (1) the Communist Party "is young and vital whereas US imperialism is old and decadent"; (2) the US, not the USSR, is the "greatest enemy to Hispanidad"; and (3) the Communist Party has a branch in Argentina while "Yanquism" has no political representation. The ALN, which in 1944 flouted a Governmental decree ordering it dissolved, is one of several nationalist organizations in Argentina which is seeking to block Peron's current policy of collaboration with the US.

The revolutionary junta in Venezuela has easily frustrated an attempted coup d'etat, apparently led by supporters of former President Lopez Contreras and appears to be capable of controlling any future revolt from this quarter.

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TOP SECRET**ANALYSIS OF PROBABLE UNGA VOTE ON PALESTINE**

The UN General Assembly will probably be asked to vote on a partition plan for Palestine similar to that recommended by the Majority Report of the UN Special Committee on Palestine (UNSCOP). Although any prediction of the Assembly vote is necessarily speculative, it appears that even if a two-thirds majority supports the plan, the vote will be very close. An analysis of the vote in UNSCOP when the reports were drawn up and of the attitudes (so far as they can be determined) of the UN members toward the Palestine problem suggests that:

(1) Eleven states will oppose partition (Saudi Arabia, Egypt, Syria, Lebanon, Iraq, Iran, India, Yugoslavia, Afghanistan, Pakistan, and Yemen);

(2) Eight states will oppose partition or will abstain (UK, Australia, New Zealand, South Africa, France, Turkey, Siam, and Ethiopia);

(3) Four states will abstain (USSR, White Russia, Ukraine, Poland);

(4) Five states will favor partition or will abstain (Greece, China, Philippines, Cuba, and Haiti);

(5) Twenty-nine states will favor partition (Sweden, Canada, Czechoslovakia, Netherlands, Peru, Guatemala, Uruguay, Norway, Denmark, Iceland, Belgium, Luxemburg, Argentina, Brazil, Chile, Paraguay, Bolivia, Ecuador, Venezuela, Colombia, Panama, Nicaragua, Honduras, Mexico, Dominican Republic, Costa Rica, El Salvador, Liberia, and the US).

There is little doubt that the states in category (1) will vote against partition. Iran, India, and Yugoslavia are the three members of UNSCOP who submitted a minority report recommending a federalized state instead of partition. Saudi Arabia, Egypt, Iraq, Syria, and Lebanon are members of the Arab League, which strongly opposes partition. Afghanistan has close religious and political ties with members of the League through the Saadabad Pact; moreover, that country consistently supported the Arabs at the Special Session of the GA in April. If, as expected, Pakistan and Yemen become UN members before a vote is taken on the Palestine question, they will certainly vote with the Arabs against partition.

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The eight states in category (2) may support the Arabs or, for various reasons, may abstain. The UK's difficulties in the Near East would be greatly increased by UN acceptance of a plan for Palestine which is unacceptable to the Arabs. It is unlikely, therefore, that the UK will accept the partition plan recommended by the majority report (particularly if the British must bear the brunt of enforcing the decision), unless it is drastically revised in favor of the Arabs.

Australia which abstained in UNSCOP from supporting either partition or federalization might agree, together with New Zealand, to a modified form of partition. In any event, both states are expected to follow the lead of the UK. South Africa has no strong feeling on the Palestine issue. Stability in the Near East and Commonwealth security, however, are important to South Africa for strategic and economic reasons. These considerations (plus local anti-Semitism and an Indian minority problem which create difficulties analagous to those in Palestine) make it probable that South Africa will follow the lead of the UK and oppose partition as recommended in the majority report.

France probably has more to gain by supporting the Arabs against partition than by abstaining. The French have no wish to see the Arab League become too strong and influential, but they do not want to antagonize the Arab world and risk increasing France's difficulties with the recalcitrant colonies in North Africa. The French also hope to regain some of their lost prestige in the Levant.

Turkey voted with the Arab states in the Special Session of UNGA, and will probably continue to support the Arabs against partition. Turkey might change its stand, however, or abstain, because of the financial aid it is receiving from the US.

Siam and Ethiopia abstained from voting on most of the issues at the Special Session and will very likely continue to abstain. If they vote, they will probably support the Arabs rather than the Zionists.

It is impossible to predict accurately how the states in category (3) will vote, for the USSR is faced with a dilemma. The USSR might favor partition in the belief that such a recommendation would diminish the influence of the UK and the US in the Near East by creating great

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unrest in the Arab world. On the other hand, it would like to make a more positive bid for Arab favor by supporting a pro-Arab solution. Under these circumstances, the USSR will probably abstain. The Soviet-controlled states may also abstain or they may split their votes (as did Yugoslavia and Czechoslovakia in UNSCOP).

The five states in category (4) are more likely to support partition than to oppose it, though they may abstain. Greece has recently sought to establish closer contact with the Arab world, but it will probably vote with the US on this issue. As neither China nor the Philippines has strong interests in the Palestine question, both states will probably follow the lead of the US. Haiti and Cuba may abstain; at the Special Session of UNGA, they deviated on several occasions from the generally pro-Zionist attitude of Latin America.

The twenty-nine states in category (5) will probably vote for partition. Sweden, the Netherlands, Czechoslovakia, Peru, Uruguay, Guatemala, and Canada voted for partition in UNSCOP. Norway, Denmark, and Iceland will probably vote with Sweden; and Belgium and Luxemburg will probably follow the lead of the Netherlands. Brazil, Chile, Paraguay, Bolivia, Ecuador, Venezuela, Colombia, Panama, Nicaragua, Honduras, Mexico, Dominican Republic, Costa Rica, El Salvador, and Argentina were consistently pro-Zionist in the Special Session of UNGA and will probably vote for partition also. Liberia is expected to follow the lead of the US.

From this analysis it appears that the two decisive factors will be the action taken by the Soviet-controlled delegates and the position of the thirteen "wavering" states in categories (2) and (4). (The attitude of the US, when made known, may influence the votes of all other states except those in the Soviet and Arab blocs.)

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TOP SECRET**BEVIN AND CURRENT US-UK RELATIONS**

At a time when the coordination of policy and cooperation in word and action between the US and the UK are of critical importance, Anglo-American relations have been complicated by recent public statements and diplomatic moves of Foreign Secretary Bevin. Cooperation in dealing with delicate and vital situations has been impeded by Bevin's stubborn refusal to promise the indefinite retention of British troops in Greece, his efforts to block changes desired by the US in the CEEC draft report, and the equivocal advice given to Iranian Premier Qavam on the Soviet oil agreement. The responsibility for the unfortunate EXODUS affair and the rejection of US representations is primarily Bevin's. Although in some instances Bevin has finally acceded, in whole or in part, to the US point of view, his unilateral behavior has caused considerable damage by confusing foreign governments and possibly undermining their will to resist Soviet pressures.

Bevin's undiplomatic statements may be ascribed to his lack of caution and his inclination to voice ideas that have not been carefully analyzed and considered. His actions, which hinder full US-UK cooperation in foreign policy, are probably not attributable to a single cause. Bevin is not anti-US. He has been a staunch supporter of the US in the UK, and his protestations of a desire to cooperate fully are apparently sincere. Nevertheless, he wishes to be recognized as an independent force in foreign affairs, and he is inclined to substitute bold speech and unilateral action for the political and economic strength which is lacking in Britain's current situation. He finds himself shackled by his nation's parlous condition, and he cannot conceal his frustration. Moreover, he has resented that the UK has had to "take a place in the queue" for European recovery program benefits.

Some of Bevin's words and actions must also be attributed to domestic politics. The left wing of the Labor Party is suspicious of US motives and is ready to accuse the Government of selling out to US capitalism and of joining an anti-Communist crusade. The presence of British troops in Greece has been regularly attacked by this left-wing group, and the Party leaders have bought harmony with promises of early withdrawal. Less important to the Government is the anti-US carping of the Beaverbrook type of Conservatives, who accuse the

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Laborites of sacrificing economic possibilities within the Empire for US favors. Certain irresponsible newspapers stress this line daily to millions of readers, however, and thus it becomes a factor that the Foreign Minister must take into account.

The British public and Government seem to be feeling the sensitiveness of a proud people faced with diminishing prestige and forced to seek favors. In a recent speech Bevin expressed the bitter view that the US regards the UK as its junior partner, a third-rate power. In this mood, Bevin is disposed to bargain over small issues.

Bevin's inclination to play what The Economist of London calls "the rogue elephant in international politics" can cause US-UK friction temporarily, or it can precipitate a rift capable of jeopardizing the attainment of international goals desired by both countries. A US-UK rift has been a major aim of Soviet propaganda. The Kremlin has well assessed the difficulty that besets the two nations which are endeavoring to maintain a genuine friendship and a mutually co-operative attitude while actually working on a giver-receiver relationship. The USSR will therefore persist in its efforts to exploit every tactless word and ill-considered diplomatic action.

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TOP SECRET**- YUGOSLAV STRATEGY IN TRIESTE**

The tension and disorder prevailing in the Free Territory of Trieste (FTT), which followed ratification of the Italian Peace Treaty, can be expected to increase until the Security Council appoints a governor of the Territory. Until that time, the area will be divided: Anglo-American forces will administer that part of the Territory formerly in Zone A, including the city of Trieste, and Yugoslav forces will occupy the southern section.

The Security Council has been unable to agree on a choice for governor. Left-wing candidates proposed by the USSR have been rejected by the US and the UK, while the USSR has refused to consider any nominations other than its own. The three candidates finally chosen by a special SC subcommittee are not entirely satisfactory to either the US and UK or to the USSR. This impasse will probably continue as long as the USSR and Yugoslavia consider the divided status quo in the FTT to be more advantageous than administration of the area as a unit.

The Yugoslavs have certain advantages under existing conditions, which they will continue to exploit to the utmost. In the southern zone, force and intimidation can be used to crush all anti-Yugoslav and anti-Communist elements. Yugoslavia can thus obtain absolute political and economic control of the area in advance of the regular elections which must be held shortly after a governor assumes office. Meanwhile, the Communists in the area under Allied military administration will continue to create disorders and to promote labor unrest and strikes in an attempt to increase the difficulties of the military authorities and to demonstrate the inability of the latter to maintain order. The Yugoslavs, moreover, will continue their economic penetration of Trieste where they have been acquiring business interests and disturbing economic conditions through extensive black market and smuggling operations.

When the Kremlin believes that Yugoslavia has obtained the maximum benefit from the present territorial division, the USSR will be ready to compromise on the selection of a governor for Trieste.

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CZECHOSLOVAK POLITICAL SITUATION

Intensified attacks by the Communists upon the moderate National Socialist and Slovak Democratic parties in Czechoslovakia have produced the most serious internal political tension since the 1946 elections. The Communist attacks seem designed to weaken if not destroy the National Front government in which the five major Czechoslovak parties participate. The unexpected stubborn resistance from all political parties, including the Social Democrats who are usually cooperative with the Communists, stems from the realization that any breach in the Front would open the way for far more rapid Communist control of the country.

The Communist offensive has been based on two major points: a Communist-sponsored special tax on "millionaires," and a demand that reactionary elements be purged from the Slovak Democratic Party. Elimination of the Slovak Democratic Party--the country's most reactionary party--is the Communists' first target. In addition to accusing the Slovak Democrats of collaborating with the Benderovici (Polish and Ukrainian underground dissidents in Slovakia), the Communists have issued an ultimatum that the Slovak Democratic Party purge itself by 20 September of all adherents of the former Tiso regime. Although support by the other moderate parties caused the Communists to temper their attacks, the arrest on 13 September of 80 state employees in Slovakia dispelled any illusion that the Communists have abandoned their determination eventually to eliminate or at least seriously to weaken the Slovak Democratic Party.

The proposal for the tax on "millionaires" was made at a 3 September Cabinet meeting by the Communists, who offered it as a means of raising funds to compensate farmers for their losses from the drought. The proposal was vigorously opposed by all the other parties, including the leftist Social Democrats. Subsequent Communist efforts to smear all those opposed to the tax indicate that the real purpose was to alienate the trade union rank-and-file support enjoyed by other workers' parties, the National Socialists, and the Social Democrats. Moreover, Communist pressure on certain Social Democratic leaders to sign a joint communique stressing socialist unity suggests that the Communists may also be attempting to create a "socialist bloc" within the National Front.

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Such a "bloc," controlling 70% of the votes in Parliament, could presumably be intimidated into greater subservience to the Communists than the present five-party coalition. It might also form the basis of a Communist-dominated workers' government following next year's elections and might even be used as an excuse for new elections this fall.

Although the situation remains tense, the unexpected vigor of the opposition to the Communists' machinations will probably force the Communist Party to proceed with caution. A compromise solution of the "millionaire" issue is expected. The Communists will continue their attacks on the Slovak Democrats, however, and will probably seek every possible means to create crises in an attempt to reduce the strength of the moderates in the Social Democratic and National Socialist Parties.

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SOVIET TROOP STRENGTH IN BULGARIA AND THE CAUCASUS

Recently reported increases in Soviet troop strength in Bulgaria and in the Caucasus appear to have been made primarily for the continuation of the "war of nerves" on Turkey and Greece, and to put further pressure on Iran. Anti-Soviet Bulgarian and Turkish sources have reported within the past six weeks the movement of six Soviet divisions into southeastern Bulgaria (through the Dobrudja into the Sliven-Elkhovo area); US Army estimates are that there were only two divisions. These troops were probably engaged in a tactical march into the Soviet maneuver area in Bulgaria where joint Soviet-Bulgarian maneuvers are scheduled for October. It is doubtful, however, that any marked increase in Soviet troop strength would be undertaken in Bulgaria at this time because, according to the recently-ratified Peace Treaty between the Allies and Bulgaria, Soviet troops must be withdrawn from Bulgaria by 15 December 1947.

A slight increase in the number of Soviet troops has been noted in the Caucasus. Prior to the closing of the office of the US Naval Attache in Odessa on 15 September, there were reports that Stalin was inspecting Soviet troops numbering 80 divisions in the Caucasus. Such a tremendous increase in Soviet troop strength in the area is very unlikely, but for Stalin to inspect the troops stationed there would be a natural concomitant of his recent visit to Sochi. The principal objective of the USSR in making troop increases in this area is believed to be to increase pressure on Iran. No military action by the USSR against Iran is expected even though the Majlis rejects proposals for the establishment of a joint-Iranian oil company.

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PRESENT FRENCH POLICY IN INDOCHINA

Current French policy on Indochina, as expressed in the speech of High Commissioner Bollaert on 10 September, does not put forward any constructive solution to the French-Vietnam impasse. Bollaert's proposals contain numerous "loopholes" for continued French intervention in local administration and fail to provide for an armistice in the current fighting. This appears to indicate that the French have not abandoned their plans for military operations to moderate the attitude of the Vietnam Government, although the early return to Indochina of former Annamite Emperor Bao Dai might postpone the launching of such operations.

French control in Indochinese affairs may be maintained through "loopholes" in the new policy as indicated in such statements by Bollaert as:

(1) The French are prepared to hand over to "qualified governments" the power to exercise civil functions with the aid of French civil servants and technicians. Presumably, the French authorities would retain the right to determine the "qualifications" of the government and set the limits of French aid to be given by the "advisers."

(2) The French will not tolerate any oppression and insist that those who have sided with the French shall not suffer for their stand. Future French intervention in the operations of the Government of Vietnam could be justified as combatting oppressive totalitarian methods or as protecting those persecuted for their past friendship toward France.

(3) The French demand that the interests of ethnic minorities in northern Indochina be respected. Because members of these ethnic groups have served the French as partisan groups on the borders of Vietnam territory, French intervention on their behalf may be expected.

The Vietnam Government is reported to have rejected these proposals, insisting that the French Union, as described by Bollaert, conflicts with its version of independence. Particularly, Vietnam

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officials regard control of Vietnam foreign relations under the French Union as incompatible with Vietnam "freedom." The demobilization of its army, as implied by Bollaert, could not be accepted by the Vietnam Government because the French-Vietnam Agreement of 6 March 1946 clearly recognized the right of the Vietnam Republic to possess an army. Because Bollaert insisted upon the acceptance or rejection of his proposals as an indivisible whole, Vietnam rejection was certain.

To administer their occupied areas, the French will now probably rely upon a government headed by Bao Dai and based on the anti-Viet Minh National Union Front and the French-sponsored Provisional Government of Cochin China. While the French Foreign Office admittedly is not enthusiastic about Bao Dai, it regards him as less doctrinaire than the leaders of the Viet Minh. Further concessions might be made to a Bao Dai government, using Bollaert's speech as a point of departure, in the hope of enhancing its prestige over that of the Viet Minh and drawing native support away from the Viet Minh. It is probable that French colonial officials hope that the burden of negotiations for peace with the Viet Minh will then pass to Bao Dai's government, permitting the French to claim to the UN and to the world that they have allowed the peoples of Indochina to work out their own salvation.

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TRENDS IN BRIEF

GENERAL

The current UK attitude toward the Iranian-Soviet oil issue is not only counter to US policy but also is undermining the Iranian will to resist Soviet pressure (see page 1).

Dutch cabinet changes which will give the Conservative Catholic Party a majority of one appear imminent. These changes would increase the likelihood of further "police action" in Indonesia and the unilateral establishment of a federal government of all Indonesia by the Dutch.

WESTERN EUROPE

Imminent withdrawal of Allied troops from Italy greatly increases Communist chances for taking control of the Government by either of two methods open to them unless the present Government can ameliorate the economic crisis (see page 2).

Communist attempts to gain control of German labor organizations in the bizonal area are intended to give the Communists sufficient strength to permit their shutting off or seriously curtailing bizonal production (see page 5).

Expansion of Satellite airline operations through Italy will be facilitated by a provision within the Italian peace treaty (see page 6).

French popular reaction to DeGaulle's recent charge that the US is giving preference to plans for German recovery over plans for France has increased his chances of returning to power and may endanger US objectives in Europe. Although most Frenchmen are pro-US and fundamentally anti-Communist, they are apparently beginning to fear that US policy threatens French security by proposing to re-build a strong Germany at the expense of France's prosperity and hence of France's safety. Because only the Communists had emphasized this view prior to DeGaulle's speech of 7 September, his new tack will further weaken Communist appeal, while

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strengthening his own, and draw to him popular support now flowing away from the Ramadier Government. If DeGaulle accedes to power and the economic situation continues to deteriorate, he is capable of leading the French into a nationalistic adventure (opposed to both Soviet and US policy) which would make the implementation of the European recovery program virtually impossible.

EASTERN EUROPE

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Continued Czechoslovak cooperation with the Western powers in civil air matters is indicated in the recent conclusion of an air agreement with the Netherlands which conforms to all International Civil Aviation Organization (ICAO) principles, and in present negotiations with the UK for the same purpose. That the USSR, however, is increasingly interested in Czechoslovak air matters is shown by the recent visit to Prague of the Soviet Deputy Chief of Civil Aviation for discussions with Czech air authorities. It is unlikely that a Soviet official of this rank would have come to Prague solely to grant Czechoslovakia the use of the Soviet airport at Berlin. The visit may have been connected with Soviet plans to penetrate the Czechoslovak air-line organization. As Czechoslovak air operations expand, the USSR can be expected to intensify its efforts to exploit them.

Before the Communist Party can dominate Hungary to the extent that it does Bulgaria and Rumania, Hungarian Communists must find a means of disposing of the dissident political elements which emerged as strong as ever from the recent fraudulent Hungarian elections. The Communist Party must reduce the effectiveness of the non-coalition parties which control 30% of the seats in the Assembly. Moreover, the Party must gain in strength before it can dispense with the coalition Government and must proceed slowly in view of the post-election rebellion against Communist electoral practices by right-wing elements within the Social Democratic and Smallholders' Parties (which control more than 50% of the coalition Government's strength in the new Assembly). Complete communization of Hungary, though inevitable, must therefore wait until the Communists have further consolidated their position by means of threats, terror, and intimidation. ✓

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The Yugoslav Trade Delegation's recent visit to Near East-ern countries, together with Yugoslav efforts to use British air negotiations as a wedge for obtaining air rights in the Near East, probably indicates political rather than economic intentions in that area. Should this infiltration prove politically productive, it would represent a modus operandi which could be readily exploited by the USSR and its other Satellites.

NEAR EAST-AFRICA

The recent resignation of the Turkish Premier, brought about by dissidence within his own party and criticism by the opposition party, represents a step by Turkey toward democracy of the Western type (see page 7).

FAR EAST

A rejection by Vietnam of the French proposals for political independence within a French Union may precipitate the anticipated French military offensive (see page 8).

Political tension in Burma has abated as a consequence of: (1) a reduction in the number of arrests made in connection with the assassinations of the Executive Councillors on 19 July; (2) recent successful negotiations with UK representatives concerning the transfer of governmental powers to Burma; and (3) the recent completion of the draft Burmese constitution. Nevertheless, the trial of former Premier U Saw and others accused of complicity in the July assassinations may provoke sudden acts of violence by opportunistic politicians, by the two anti-government Communist Parties, or by dissatisfied factions within the government party, the Anti-Fascist League. G cat

WESTERN HEMISPHERE

That the Paraguayan Government still favors US leadership in the standardization of military doctrine and training would seem to be indicated by the fact that the Government is seeking US training for key members of its War College faculty and is prepared to pay for that training out of its own strained resources. The former TLT Cont 4/2

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US-trained faculty members of the War College, who are to be replaced by these new trainees, were relieved of their posts when they collectively refused to take part in suppressing the revolt against Morinigo. Apparently, however, there has been no disposition in official quarters in Asuncion to attribute this defection to the fact that they had studied in the US. Nor has any exception apparently been taken to the hands-off policy of the US military missions during the revolt--a policy which, from the Paraguayan point of view, must have contrasted sharply with that of the Argentine authorities who appear to have given valuable assistance to the beleaguered Government forces.

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BRITISH VIEWS ON SOVIET-IRANIAN OIL AGREEMENT

Although both the US and the UK have expressed a desire to follow a coordinated policy on the Soviet-Iranian oil issue, the UK now demonstrates an independent tendency to favor Iranian appeasement of the USSR and believes the door should be left open for further negotiations if the present agreement is rejected. The Foreign Office has not stated its reasons for adopting this attitude, but it appears that the British fear a violent Soviet reaction if the Majlis categorically rejects the oil agreement and believe that they are unable at present to cope with another critical international situation.

The British may also believe that their refusal to interfere with Soviet aims in northern Iran will serve as a quid pro quo in protecting their own concession in the south. This belief is probably fostered by British oil interests (which include the Government itself). Such an approach is consistent with the historical British policy of safeguarding UK interests in Iran through the establishment of Russian and British spheres of influence.

Soviet ✓

The present British attitude is demoralizing the Iranian will to resist Soviet demands and will unquestionably affect the tenuous stability of the Government. Even if the UK should reverse its position, Iranian confidence in US-UK support of Iran's independence has already declined, and the further extension of Soviet influence in the country has been facilitated.

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ITALIAN COMMUNIST INTENTIONS.

The imminent withdrawal of Allied troops from Italy has increased the possibility of direct Communist action to seize power and has rendered more effective other Communist methods for taking control of the country. Although Communist Leader Togliatti this week has, in effect, issued a call to arms against the De Gasperi Government, other Communist tactics appear more likely under present conditions. ✓

In carrying out their offensive, the Italian Communists have open to them two main courses of action: (1) sudden overthrow of the De Gasperi Government by Communist-sponsored armed force, following withdrawal of Allied troops; and (2) Communist-inspired general strikes to paralyze the important north Italian industrial area, and thus, seriously interfere with future implementation of the program for European recovery. to ✓

By the employment of tactics similar to those used in Greece, the first course is within the realm of possibility. Although the Italian Army and Carabinieri have some 200,000 troops to oppose approximately 50,000 Communist guerrillas, the addition of partially-armed and trained Italian and Yugoslav Communists and fellow-travellers could appreciably increase the strength of the revolutionists. Furthermore, redeployment of Italian armed forces to protect the Yugoslav frontier following the withdrawal of Allied forces would remove certain troop units from important Communist-dominated centers in north Italy.

Recent developments within the Communist Party in Italy may increase the likelihood of direct military action. There has long been a division within the Italian Communist Party between the Togliatti faction, which has favored peaceful political infiltration, and the pro-revolutionary group headed by Luigi Longo (member of the International Brigade during the Spanish civil war and Partisan leader in Italy during World War II). The recent departure of eight members of the "direct action" group for Moscow may indicate closer coordination between this element and the USSR and consequent intensification of Communist paramilitary activity. Togliatti's last speech may mean that he will go along with the revolutionary faction.

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Two factors, however, militate against Communist revolution in Italy. The USSR is unwilling to support directly such a step because it might involve war with the US. An even more potent reason against it is that the failure of the European recovery program, or even failure of the US to provide Italy with emergency wheat and dollars during this critical interim period, might deliver Italy into the hands of the Communists by popular vote at the next national elections. It would therefore seem more logical for the Italian Communists to await the outcome of the elections, scheduled for April 1948, before using revolutionary tactics.

The continuation of threats and intimidation is, of course, a permanent policy, and any Communist statements regarding the necessity for violence can be considered to be made partly for propaganda purposes. It will be remembered that Togliatti made a speech threatening "direct action" prior to the Sicilian elections in April, and it is certain that the leftist majority in that former stronghold of conservatism was created in part by the Sicilians' terror of Communist reprisals. *will be*

Of the two courses of action, the second seems most likely, and there is evidence that it has already been embarked upon. Paralysis of the north Italian industrial section, which is perhaps second only to the Ruhr in its importance to the European economy, through "spontaneous" general strikes could defeat the operation of the European recovery program and eventually throw not only Italy into the Soviet orbit, but possibly France as well. The strike of 600,000 agricultural workers in the Po Valley, which began on 9 September, indicates that the Communists are now making every effort to bring production to a standstill. *already forgotten wot #2 was - has to turn page - should have spelled out.*

Communist-sponsored strikes are causing a further deterioration of the critical economic situation, which has already compelled the Premier to appeal for emergency wheat from the US in order to restore Italy's essential pasta ration. The De Gasperi Government must cope in some way with the desperate economic crisis before the 23 September meeting of the Constituent Assembly, when a vote of no confidence proposed by Left Wing Socialist Nenni will be discussed. *? left wing*

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Whichever course the Communists follow, their chances of success are excellent unless the De Gasperi Government can ameliorate the economic crisis by procuring sufficient wheat or through successful operation of the European Economic Recovery program.

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COMMUNIST INTENTIONS IN WESTERN GERMANY

The Communists in the bizonal area of western Germany are accelerating their penetration of German labor organizations. The success of this penetration will enable the Communist Party in that part of Germany, if it should later be suppressed as a political organization, (as its leaders apparently anticipate) to continue its activities as an underground movement through the workers.

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At present the Communists are attempting to infiltrate the unions while preserving simultaneously the appearance of non-Communist control by permitting Social Democrats to remain in prominent offices temporarily. The current Communist strategy is to win over the individual worker and thus assume command of the union through control of the rank and file. Marxist sentiment is particularly strong in the Rhenish-Westphalian industrial region and especially powerful in the Ruhr. In addition, a reliable American trade unionist reports extensive expansion of Communist influence in Greater Hesse. The overall plan is to gain sufficient strength to be in a position to shut off or seriously curtail bizonal production.

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EFFECT OF ITALIAN TREATY ON SATELLITE AIRLINES

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The deposit of the ratified Italian peace treaty on 15 September will afford the Soviet-controlled Satellite airlines an opportunity for further expansion through Italy. Thus, the implementation of the US policy of opposition to the expansion of the Satellite airlines becomes further complicated.

The treaty clause which permits UN members, on a reciprocal basis, to overfly and make non-traffic stops in Italy will enable Poland and Yugoslavia, if they are willing to pay the price of reciprocity, to bring their commercial aircraft to the Italo-French border and to the southern and eastern shores of the Mediterranean. (The USSR itself will not accord Italian airlines reciprocal rights, and thus cannot exploit directly this treaty provision.)

A further factor favoring Satellite airline expansion lies in the dangerous Italian political situation which may deteriorate further upon the forthcoming withdrawal of Allied forces from Italy. If the Italian Communists should choose this time to press vigorously for a demonstration of friendship with the Satellite States, the Italian Government may be forced to accept any bilateral air agreements which the Satellite countries choose to propose. This would frustrate the present US policy of containing the Satellite airlines and indirectly secure for the USSR the long-desired gateway to Egypt and the Near East.

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REMOVAL OF TURKISH PREMIER

The recent resignation of Turkish Premier Peker was caused by the expression of dissatisfaction with his Government by the opposition Democratic Party and also by the rank and file of the Government's own People's Republican Party (PRP). Discontent in the two parties was created primarily by the Government's obdurate attitude toward criticism of some of its internal policies.

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unwisdom with
them had put -

This sort of pressure, exerted on the Government from below, is the strongest manifestation since the introduction of the multi-party system less than two years ago of the growing strength both of the Democrats and of the dissident elements in the PRP. The fact that party leaders permitted the Government to fall under such circumstances (which would have been impossible only a short time ago) represents a progressive step in Turkey's evolution as a democracy of the Western type.

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permit ... impossible

Peker's Foreign Minister, Hasan Saka, has accepted President Inonu's request to form a new cabinet. The Saka cabinet will, of course, be composed of PRP members, and its foreign policy will not differ from that of the Peker government. In internal affairs, it will probably offer less obstinate resistance to demands for more liberal legislation. However, in dealing with current economic difficulties (which have been the basis for criticism by PRP as well as opposition members of the National Assembly), there is no indication yet that the new cabinet will be more competent than its predecessor.

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POSSIBLE FRENCH OFFENSIVE IN INDOCHINA

The possible rejection by Vietnam of High Commissioner Bollaert's proposals of (10 September) for political independence within a French Union might provide an occasion for launching the expected French military offensive in late September. French military circles oppose dealing with President Ho Chi Minh at present and believe that negotiations would be more profitable to France if opened after the Vietnam Government has been shaken by a military campaign.

Another factor favoring an early French operation in northern Indochina is the rapid deterioration under tropical conditions of French equipment, largely acquired in the North African campaign of 1942-43 and seriously in need of repair or replacement. It has been estimated that within six months, large quantities of this materiel may become unusable, which would seriously jeopardize French tactical superiority.

A French offensive, while achieving some success in a purely military sense, may result, finally, in conditions detrimental to French interests. Although French strength in Indochina is estimated at about 116,000 men (with another division of 20,000 men due to arrive before the end of September), the concentration of these forces in northern Indochina would expose Cochin China and southern Annam to guerrilla infiltration from Vietnam. This would endanger the position of the French-sponsored Cochin Chinese Government and the regional governmental committees established in the French-occupied areas of Annam. A considerable sector of popular opinion in France will oppose further fighting as signifying pre-war imperialism; and the possibility exists that, following the precedent established by the Republic of Indonesia, some country sympathetic to Vietnam may bring the matter before the UN.

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TRENDS IN BRIEF

GENERAL

The reaction of the USSR to the recent US proposals for a four-power conference on Korean independence will provide an estimate of Soviet confidence in the Communist Party in Korea (see page 1).

Prospects of US access by air to Satellite areas will probably not be improved by the ratification of the peace treaties. Meanwhile, US air relationships in the remainder of Eastern Europe seem to be deteriorating (see page 3).

The South African Government is approaching the September UN General Assembly in an increasingly defiant mood. South Africa has served notice that it does not intend to submit a UN trusteeship agreement for South-West Africa as was requested by a General Assembly resolution last year. Concerning another resolution requesting South Africa to negotiate an agreement with India on the treatment of the Indian minority in South Africa, the Government intends to ask that the Indian Government's complaint be dropped from the UN agenda, even though no substantive negotiations took place, and to suggest independent negotiations with India on conditions so stringent that the latter will certainly find them unacceptable.

too long

Soviet businessmen in Shanghai are being encouraged by the USSR Consulate to transfer their firms to Hongkong, Siam, Singapore, Indonesia, the US, and especially to South America. Persons screened for transfer are Soviet citizens of wealth, intelligence, and well-established loyalty to the USSR. It is believed that the purpose of these transfers is to provide the USSR with influential agents abroad for economic penetration and espionage.

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must often use that sentence first -

WESTERN EUROPE

The USSR will attempt to bolster its power in Germany prior to the November meeting of the CFM in order to gain a

strong bargaining position vis-a-vis the Western Powers and to procure all possible benefit from the almost certain failure of the Conference. Should Soviet efforts fail to unite Germany on Soviet terms, the Kremlin may establish a "German Republic" east of the Elbe (see page 4).

UK Prime Minister Attlee will probably make two or three Cabinet changes before mid-October, eliminating certain extreme doctrinaire Socialists. If he should not, however, take such action, it will indicate that the Government, despite the economic crisis, intends to pursue a doctrinaire Socialist program this fall and even to press for the nationalization of the steel industry. The possibility exists that Attlee himself may resign, in which case Bevin will probably succeed him.

That General de Gaulle may return to power in the event of an economic and food crisis appears to be an increasing possibility. His strong anti-Communist stand, his admission of error in accepting the Communists into the French National Committee in 1943, and the temporary weakening of the French Communist Party have combined to increase his popularity at a time when the belief is becoming widespread that post-war French coalition governments are incapable and that a strong government is required. At present but two types of strong rule appear possible in France: a single-party Communist rule or a regime headed by De Gaulle. The latter would appear to be preferred by a majority of Frenchmen.

The long-continued tendency of the anti-Communist parties in Italy to break up into ineffective, small groups and thus defeat themselves has been demonstrated once more by the recent schism in the extreme-rightist Common Man Front. Dissident elements of this organization have formed a new party which appears to be allying itself with neo-Fascist and monarchist groups, thus providing the Communists with new anti-Fascist propaganda. As long as such schisms and political ineptness continue, the numerical superiority of Italy's anti-Communist groups will be neutralized by the divergent policies of their leaders and by the discipline of the Communist Party.

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The defection of Portuguese President Carmona from the Salazar regime has been indicated in a statement reportedly made by Admiral Cabecadas to the secret police. Cabecadas, in custody and accused of plotting to overthrow the Government, stated that he organized the abortive military revolt of 10 October 1946 with the knowledge and consent of Carmona. Despite Cabecadas' revelation, it is doubtful that Salazar will take action against Carmona because of the latter's prestige with the people of Portugal.

NEAR EAST-AFRICA

The spread of the Sikh-Moslem-Hindu rioting, the collapse of transportation, and approaching famine are three of the chief threats confronting India in the near future (see page 5).

Although Iran is now strongly resisting Soviet pressure for concessions in Azerbaijan, continuation of Iran's determination will depend largely on its estimate of the ability of the Western Powers to support Iranian independence and to stop Soviet aggression in Southeastern Europe (see page 7).

FAR EAST

Continued violence and further delay in the negotiations to end the Indonesian dispute may lead the Dutch to launch operations to eliminate the Republic on Java (see page 8).

WESTERN HEMISPHERE

Canada's growing dollar shortage will probably cause that country to consider both restricting US imports and requesting a US loan totalling approximately 500 million dollars (see page 10).

US-Mexican air negotiations may break down because of Mexico's unwillingness to accede to the demand by the US for a second US airline between Los Angeles and Mexico City. Mexico maintains that such a route would constitute unfair competition to the single Mexican airline. If agreement cannot be reached on this final issue, President Aleman may refer the problem to President Truman in view of their previous discussion of the subject.

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SOVIET REACTIONS TO US POLICY IN KOREA

Soviet acceptance of the US proposal for a four-power conference on the problem of Korean independence would clearly indicate that the USSR is confident of the strength of the present Communist political organization in South Korea. Conversely, Soviet delay and obstructionist tactics at a four-power conference or a complete boycott of the conference would indicate that the USSR considers the Communist Party weak in the southern zone.

Despite Soviet contentions that the negotiations of the Joint Commission have been hindered by the "oppressive" and "undemocratic" governing policies of the US in South Korea, the records of the meetings show clearly that the USSR planned the current stalemate within the Commission. Throughout its stay in Seoul, the ninety-man Soviet delegation subordinated its work on the Joint Commission to the organization of a fifth column designed to obtain political domination of South Korea. The USSR has protested the recent arrests of Communist leaders in the US Zone probably because of the effect of the arrests upon the carefully-established Communist political organization there.

The US proposal for a four-power conference includes a proposal for immediate bizonal elections to establish a provisional Korean government. Current political alignments in Korea, however, favor the eventual domination by the Communists of any provisional government that may be elected on a zonal basis. Soviet domination of the northern zone assures a solid Communist bloc of one-third of any government based on proportional representation. Simultaneously, a solid leftist front exists in South Korea which is small in numbers, handicapped by a rightist-dominated police force, and opposed by numerous rightist groups. These rightist groups are disorganized and mutually uncooperative, and the possibility exists that, in the near future, the more tightly-knit, though smaller, Communist organization can successfully oppose them. Recent aggressive US tactics have probably not disrupted this leftist structure permanently or changed the basic elements of the situation. It is doubtful, moreover, if the presence of UN observers at the elections could alter the electoral result appreciably.

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Although it is not expected that the USSR will accept the US proposals for "immediate" popular elections, such acceptance would further Soviet objectives in the following ways: (1) a US aggressive policy would be made to seem unwarranted, and the US would appear responsible for the stalemate within the Joint Commission; (2) Soviet tactics in the Joint Commission would not be subjected to public examination or debate; and (3) a temporary "provisional" government would allow Communist workers, on the basis of friendly cooperation with the rightists, to obtain key positions which would be advantageous when a permanent government is elected.

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US AIR PROSPECTS IN EASTERN EUROPE

Despite the guarantees of air rights contained in the Satellite peace treaties, final ratification of the treaties will probably not improve the prospect that US air lines will gain access to these areas.

By the treaties, all members of the UN are guaranteed non-discriminatory treatment with respect to air rights for a period of eighteen months. Because the Satellites have already granted the USSR unrestricted air access, the US can legally demand full air rights. Even if present Soviet air operations in the Satellite areas should cease, the US could invoke another specific term of the treaties in demanding the right of overflight.

However, it is not likely that the Satellite countries will be permitted by the USSR to exercise freedom of action in granting air rights to other countries, despite the treaty provisions. It is very unlikely, though, that the USSR will be able to prevent an occasional overflight of Satellite territory by US aircraft. Meanwhile, the prospect for the satisfactory development of US air interests in the remainder of Eastern Europe seems to be deteriorating. For example, Czechoslovakia, which has given the US liberal treatment, is replacing its present representative in the International Civil Aviation Organization (ICAO), apparently because the Communists, whose influence seems finally to have penetrated air policy, consider him to be politically unreliable. Moreover, negotiations for a US-Austrian bilateral air agreement, which had nearly reached a successful conclusion, have now been delayed at the request of a Communist cabinet minister who may further attempt to obstruct the agreement. Because the US has also decided it does not desire to sign the agreement immediately, a final agreement now appears uncertain.

SOVIET EFFORTS TO STRENGTHEN POSITION IN GERMANY

In the weeks remaining before the Council of Foreign Ministers (CFM) meets in November, the USSR will endeavor to strengthen its position in Germany in order to gain a strong bargaining position, vis-a-vis the Western Powers. Such maneuvers will also enable the USSR to take advantage of the almost certain failure of the conference. The USSR has undertaken a ruthless exploitation of the Soviet Zone for essential goods, capital equipment, and dollar exchange credits. The allocation for Soviet use or sale on foreign markets of 90% of current industrial production, renewed reparations dismantlings, and a higher export quota of lignite coal (for which the Zone receives \$1.25 per ton in marks and which is resold on the foreign market for \$15.00 per ton in dollars) are some of the current means to this end.

In the political field, the USSR has expanded the influence of the Communist front organizations (Antifa) and further restricted non-Communist parties of the Zone. It has also organized through the Socialist Unity Party (SED) an information service (ID) closely connected with the Soviet secret police and very similar to the old Nazi Sicherheitsdienst. Thus the Soviet-controlled SED will have command of the Soviet Zone, regardless of CFM decisions.

In addition to these efforts in the Soviet Zone, the USSR is penetrating western Germany. The main line of attack is to extend the SED political structure to the west, while, simultaneously, efforts are made to establish Communist front organizations, such as the Freie Deutsche Jugend (FDJ), and to penetrate Western Zone labor unions. Soviet efforts to gain control of established unions may be aided by the desire of Catholics in the Rhineland to withdraw from these unions and set up separate Catholic unions. Finally, in order to facilitate terrorism in the Western Zones, a branch of the ID has been organized, and western Germans who oppose Communism will be subjected to underground intimidation.

If Soviet efforts at the CFM fail to achieve a united Germany on Soviet terms, the USSR will attempt to blame the Western Powers for failure of the conference. At the same time, the Kremlin may announce the recognition of a "German Republic" east of the Elbe and attempt to secure the removal of the Western allies from Berlin.

IMMEDIATE PROBLEMS CONFRONTING INDIA AND PAKISTAN

The Dominions of India and Pakistan are faced with several immediate problems which threaten them with further chaos in the near future. The most alarming problem is the possible spread of communal disturbances, now localized along the India-Pakistan boundary in the Punjab, arising from the anger of the Sikhs over the inclusion in Pakistan of areas where nearly two million Sikhs live and where many of the most sacred Sikh shrines are. Because the governments of both India and Pakistan will make every effort to suppress the disturbances and because the problem will resolve itself partially by mass migration of minority communities from one side of the border to the other, the current outrages can be expected to diminish unless communal feeling in the armed forces of the two countries develops into widespread mutiny. Such an eventuality could result in mass warfare between the peoples of India and Pakistan.

A second problem is the threatened collapse of railway transportation in both dominions. The economies of India and Pakistan are dependent upon the railways, because road systems and motor transport facilities are inadequate. The railways, called upon to carry a load exceeding prewar requirements without proper repairs or replacements, may suffer a mechanical breakdown. Even more contributive to a possible collapse are the administrative and operative difficulties brought on by the loss of almost all European personnel and by the dislocation of native staffs through partition. The Pakistan railways have reportedly lost some 30,000 employees.

A problem which confronts the Dominion of India alone is the threat of famine. Pakistan is a surplus food area (except for East Bengal which normally has a small deficit), and present supplies within the country are believed adequate. The subcontinent as a whole, however, is a deficit area and before the war annually imported from $1\frac{1}{2}$ million to $2\frac{1}{4}$ million tons of food, mostly cereals. Several factors will increase this shortage in the Dominion of India. These factors are: the complete failure of the last wheat crop, the rapid depletion of current supplies, the difficulty of procuring food from Pakistan, and the unavailability of sufficient imports from other countries. The government of India estimates its food deficit

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for the current year at $4\frac{1}{2}$ million tons. While certain secondary crops will be harvested soon and will relieve the situation to some degree, large-scale famine appears imminent, with urban centers and all of central India most seriously affected. The political repercussions of widespread starvation may be less apparent in India than in Western countries, but famine on the scale anticipated will seriously retard the development of Indian stability and will greatly increase the strength of radical groups within the country.

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IRANIAN RESISTANCE TO SOVIET PRESSURE

Iran's resistance to pressure by the USSR has recently been strengthened by the very nature of the Soviet tactics. The current Soviet propaganda campaign against the person of the Shah, who hitherto has escaped Soviet attacks, and the unrelenting pressure by the USSR for an oil concession have consolidated informed opinion behind the Government to a degree uncommon in Iran and have mobilized the rightist and moderate press in support of the government's position. Although it has been expected that the Majlis would reject the oil proposal of 4 April 1946, it now appears that all parliamentary groups are united in opposition to any kind of oil agreement with the USSR. Prime Minister Qavam, who negotiated the tentative agreement of 4 April, not only has refused to sign a new proposal presented by the Soviet Ambassador, stipulating that a Soviet-Iranian oil company be formed within three months, but also has informed the Ambassador that the agreement would be rejected by the Majlis.

The USSR will continue to try to subjugate Iran by intimidation and by the exploitation of the country's many internal weaknesses. The USSR will probably make use of Kurdish tribesmen and ex-Azerbaijan Democrats, reportedly being massed near the Iranian frontier, to create disorder in northern Iran; already Soviet propaganda is accusing Iran of conducting a "reign of terror" in Azerbaijan. Reports of Soviet troop concentrations near the Iranian border are also being used for purposes of intimidation. The continuing will of the Iranians to resist these pressures will depend largely on their estimate of the ability of the Western Powers to support Iranian independence and to counteract Soviet aggression in Southeastern Europe.

RECENT DEVELOPMENTS IN INDONESIA

The Netherlands Indies Government has officially designated broad zones of Western and Central Java, the northern coast of East Java, the southern coast of Madura, and wide areas around the three principal Dutch salients on Sumatra as zones occupied by Dutch forces. Within these areas, the authority of the Indonesian Republic has been outlawed by the Dutch, who have assumed responsibility for maintaining order. The next step to be taken by the Dutch will probably be to establish in these zones regimes based on ethnic groups. These regimes are to become members of the interim federal government planned by the Dutch and will be on an equal footing with the established governments of East Indonesia and East and West Borneo.

Effective control by the Dutch in their officially-occupied areas will continue to be impaired by the scorched-earth policy of the Republican guerrilla groups. This policy is aimed primarily at plantation equipment, processing industries, and stockpiles of export commodities with subsidiary emphasis on communications and Dutch military stores, but its immediate effectiveness has been below Republican expectations. Dutch authorities have been able to export about 5000 metric tons of rubber and smaller quantities of sisal and quinine, despite disrupted communications. A long-range effect of the scorched-earth policy, however, may be to lengthen the period when the Dutch will be unable to ship exports from Java because stockpiles have been exhausted and current production has not become effective. *during which?*

Dutch military action to consolidate control in Java and Sumatra and Republican action to block such consolidation will continue for an indefinite period despite attempts by the UN Security Council to secure an effective truce. The Dutch will justify further military action by the claim that Republican terrorist activity threatens order within areas for which the Dutch have assumed responsibility. The Republic will justify its action on the grounds that its de facto authority over the areas now occupied by the Dutch was clearly recognized in the Linggadjati Agreement of March 1947, which has not been officially repudiated.

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Negotiations to end the dispute between the Netherlands and the Republic will be delayed by the disagreement between the two parties on the conditions for negotiation. The Dutch say that they will not negotiate with the Republic until violence and sabotage cease, while the Republic demands that Dutch forces be withdrawn to positions held at the outbreak of hostilities before it will begin negotiations. Protracted delay over conditions for negotiations and further delay in the process of negotiation when undertaken may lead the Dutch to launch operations designed to eliminate the Republic on Java.

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CANADIAN ACTION ON DOLLAR SHORTAGE

Canada's deteriorating dollar position is continuing to concern the Canadian Government and is receiving broad press treatment as the country's primary problem. Canada began the year 1947 with dollar resources of $1\frac{1}{2}$ billion. During the first six months of 1947, Canada's deficit with the US was 488 million dollars, nearly equal to the deficit for all of 1946. The rate of deficit since 1 July is reported to be still higher. The UK dollar crisis will probably aggravate the problem by making it necessary to modify the present agreement whereby the UK has been paying half the price of its Canadian imports with US dollars.

While Canadians would undoubtedly prefer to correct the unbalance by larger exports to the US and by effective multilateral trade practices, it is probable that Canada will feel impelled to seek direct, immediate relief before the end of 1947. The Government is likely to effect a stringent restriction of imports from the US and heavier buying in the sterling area. The Government is also considering a request for a loan from the US Government and perhaps from private sources to total at least 500 million dollars. Canada will probably resort to a combination of these measures.

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TRENDS IN BRIEF

GENERAL

Increased distribution of Ruhr coal could be effected if the US and UK approve the "Hague Agreement" which would resume the traditional use of Low Country ports for imports into western Germany (see page 1).

Discussions on civil air policy by the US, the UK, and France, to be held next week in London, will further improve the outlook for a multilateral air transport agreement at the Rio Conference of the International Civil Aviation Organization in October (see page 2).

The expected Security Council decision on the Anglo-Egyptian dispute, recommending that the UK and Egypt resume direct negotiations, will probably increase the violent disorders in Egypt directed against Britain and the US. It is probable that the situation will be so disturbed as to make further negotiations impracticable for some time to come.

WESTERN EUROPE

The US economic program in Austria is unlikely to effect any major changes in Soviet policy, although US failure to extend aid to eastern Austria on an interim basis would provide the USSR with an excuse to ban food shipments to western Austria (see page 4).

Despite the Spanish Government's apparent stability, certain diplomatic, economic, and political forces opposed to Franco are slowly gathering strength and may eventually force him out of power (see page 6).

Although some French political circles have reacted strongly to the announcement that DeGaulle's RPF would present candidates in the coming municipal elections, it is unlikely that DeGaulle's return to politics will seriously upset the present French political alignment unless a sharp political crisis develops (see page 8).

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The German bizonal railroad car repair program was in the black for the first time during July. There is still, however, a considerable car shortage. The Hamburg and Bremen Consulates report, moreover, that the favorable repair balance will soon disappear, since reparations from these cities alone will drastically reduce the number of bizonal railroad manufacturing and repair plants. Seven vital plants in Hamburg are marked for dismantling. Because drastic depreciation in production occurs when a plant is reassembled, this dismantling will cause appreciable loss to the Western European economy. In the recent Washington coal talks, it was generally conceded that the transport bottleneck in the European economy is now more important than the coal problem.

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Portuguese foreign policy is being reshaped by the decline in the international military and political position of the UK. For the past five and a half centuries the foreign policy of Portugal has been based on a British alliance and has depended upon the capacity of the UK to defend Portugal and its colonies. Alarmed by the growing insurgence of colonial peoples, which may threaten the Portuguese empire, convinced that another world war is imminent, and aware of the danger to the Portuguese economy that repercussions of the UK economic crisis may bring, the Portuguese will undoubtedly attempt to substitute the US for the UK as the guarantor of their national integrity. Some such guarantee may well be the Portuguese price for airbase facilities in the Azores.

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EASTERN EUROPE

Recent Soviet propaganda charges that the US is embarked on a program of military aggression in Southeastern Europe and the Middle East may foreshadow a series of Soviet "counter-measures" in those areas (see page 9).

The Speaker of the Finnish Diet has accused Finnish Communists of responsibility for the recent outbreak of wildcat strikes which endanger the economic and political stability of the country. This criticism of Communist Party activities, the most outspoken by a political figure since VE Day, may represent a political trial

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balloon by the Speaker who has been mentioned as a possible candidate for Prime Minister, but it is also an indication of the intense hatred of the Finnish people for pro-Communist fellow countrymen.

After a week of negotiations the Greek politicians have been unable to form a government. For a short while it appeared that a coalition built around the three Center leaders who had caused the fall of the Maximos Cabinet might be able to form a reasonably liberal and representative government. Latest reports, however, indicate that the new government will include all the personalities of the old one. The total result of the week's crisis has been a further reduction of civilian morale and a clear revelation of the lack of political principle among the Greek politicians. No government now formed by a coalition of these perennial politicians will have the confidence of the people. But because their grip on the governmental machinery is too strong to be broken without a revolution or a coup d'etat, these same politicians will probably be the leading figures in any government which may be formed.

NEAR EAST-AFRICA

The newly-constituted Dominion of India may be expected to align itself with the USSR as a result of prevailing Indian attitudes and Prime Minister Nehru's influence (see page 10).

Although Abdullah has largely disregarded the UK injunction to cease agitation for Greater Syria, the UK is unlikely to exert further pressure on him unless his efforts threaten to split the Arab League (see page 12).

FAR EAST

A French-instigated appeal for the return of Bao Dai to Indochina as ruler of the three Annamite provinces may succeed, but the Vietminh will continue their campaign of terrorism and France will be forced eventually to negotiate with Ho Chi Minh (see page 13).

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Dutch forces are expected to succeed in occupying the capital of the Indonesian Republic, Jogjakarta, if military operations are resumed. The Republic will continue its opposition, however, probably from a new capital, either Fort De Kock or Sumatra. The sporadic, scattered nature of Republican resistance will make it most difficult for consular officials in Batavia to report on the observance of the Security Council's cease-fire order and on the situation in the Republic as requested by the Security Council on 25 August.

WESTERN HEMISPHERE

The refusal by the Rio Conference to honor credentials from the government that recently seized power in Ecuador re-emphasizes the present tendency to qualify the theory that all American nations are "as of right" members of the Inter-American System (see page 15).

A bilateral US-Mexican air transport agreement appears likely, especially since the exchange of views between President Truman and President Aleman. The signing of a US-Mexican air agreement at this time would be a major step toward the organization of international air transport throughout the Western Hemisphere and would enhance the prospects for a multilateral air transport convention along the lines to be advocated by the US at the forthcoming civil aviation conference in Rio.

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TRANSPORTATION PROBLEMS AFFECTING EUROPEAN RECOVERY

Western European countries now conferring in Paris on the European recovery program are becoming increasingly concerned over the possibility that US and UK bizonal authorities in Germany will not approve the proposed "Hague Agreement," which would resume the traditional flow of imports into Germany through the Low Country ports and subsequent transshipment by barge to the Rhineland.

The Western European countries apparently feel that from their point of view it would be incongruous for the US to urge them to take radical measures toward reorganization of economy on a Europe-wide basis, while the US and UK, at the same time, continue the inefficient use of Hamburg and Bremen as ports of entry for western Germany because of currency considerations determined by zonal administration policy.

European misgivings in this regard are accentuated by the present bottleneck in Ruhr coal distribution. More Ruhr coal is currently being produced than the deteriorated German rail facilities can haul away. The European countries maintain that if the Reichsbahn could be relieved of traffic from Hamburg and Bremen which can be barged up the Rhine, more Ruhr coal could be moved, thus benefiting the entire European economy.

Before the US reaches a final decision on the European recovery program, it is probable that other questions in the field of transportation will be raised by European countries. Continued transportation of relief supplies in US vessels, for example, may be questioned on the ground that European countries could receive a greater quantity of relief for a given cost to the US, if unrestricted transport in European bottoms were permitted and if idle US merchant ships were made available for operation by the European countries with their own crews.

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MULTILATERAL AIR TRANSPORT AGREEMENT

There is already agreement among the principal air transport nations concerning the necessity for a multilateral air transport agreement. The chances that such an agreement will be reached at the October Rio Conference of the International Civil Aviation Organization will be further improved, however, by the preliminary discussions on civil air policy by the US, the UK, and France to be held in London 1 September. The US is the prime mover in promoting a multilateral agreement which would fix the basic pattern of international air transport and govern the nature of supplementary bilateral agreements. There is widespread disagreement, however, with US views concerning the provisions of such an agreement.

Those nations which have efficiently-operated airlines (particularly the US, the Netherlands, and the Scandinavian countries) advocate relatively free international competition. Other nations, including France, seek to protect their weaker positions by limiting competition and reserving air traffic within certain regions exclusively for the airlines of the immediate area. The UK is in a special position in that it originally advocated a highly restrictive policy but since 1946 has supported US views. This shift in the UK position is not necessarily permanent. If the UK should revert to its former position, which might occur following a collapse in current efforts toward Western political and economic collaboration, a multilateral agreement acceptable to the US probably could not be achieved.

Two basic issues will divide the nations at the October Rio Conference: (1) the problem of "fifth freedom" traffic (traffic carried by an airline of country A between countries B and C); and (2) the designation of international air routes. Those countries which fear competition desire the elimination or severe restriction of "fifth freedom" traffic. On the international air routes problem, some states seek a provision in the multilateral agreement which would make all international airports available to all nations with no limitations on routes. However, those countries which have jurisdiction over the major traffic centers (chiefly the US and UK) wish to establish specific routes by bilateral bargaining. If the Rio

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Conference produces a multilateral treaty, it appears probable that this agreement will embody the principle of bilateral route negotiation and will include more specific restrictions on "fifth freedom" traffic than are contained in the US-UK Bermuda agreement.

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TOP SECRET**SOVIET INTENTIONS IN AUSTRIA**

The US economic program in Austria is unlikely to bring about any major changes in Soviet policy. The USSR will continue to promote political and economic unrest both as a means of immediately increasing its influence and of ultimately forcing Austria into the Soviet orbit. Meanwhile, the USSR, in attempting to counteract the benefits to Austria of Western assistance, may be expected to: (1) continue to delay the Austrian treaty and thus weaken the national economy by prolonging the four-power occupation; (2) tighten control over the industries and resources of eastern Austria, linking them with the economy of the Soviet Satellites; and (3) place greater restrictions on both inter-zonal trade and trade between Austria and the Soviet Satellites. The USSR apparently acts on the assumption that the Austrian Government will eventually be willing to acquiesce to these Soviet demands, if only to rid the country of the occupation troops.

In addition to this economic and political pressure, the USSR will attempt to draw Austria into an eastward orientation by improving the position of the small Austrian Communist Party. With Soviet backing the Austrian Communists will probably be able to break the Socialist hold on organized labor in plants controlled by the USSR. Furthermore, there may be an increase in Communist-directed strikes, sabotage, and unrest throughout Austria.

Should the Kremlin decide that these measures are inadequate, the USSR may further tighten its controls over eastern Austria and thereby force a partition of the country. From the Soviet point of view, such a move might appear advantageous, particularly because the Austrian peace treaty might be less advantageous to the USSR and because the Austrian Communists appear incapable of gaining control of the Government without vigorous Soviet help.

The USSR probably does not, however, desire partition at the present time. The Soviet Union now enjoys most of the economic advantages and at least some of the political advantages which could be achieved by partition. The USSR already has possession of a large number of industrial assets, including Austria's valuable oil resources, and cannot be deprived of these properties except by its

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own agreement. Furthermore, from the Soviet point of view there are several objections to complete partition: (1) eastern Austria is dependent in part on Western Europe for coal and machinery and on the US for relief; (2) partition would probably damage Soviet chances of absorbing all of Austria because it would forfeit western Austria to the US, UK, and France; and (3) partition would unnecessarily provoke the US as further indication of Soviet expansionism.

For the present, therefore, the USSR will probably continue the present policy of exploiting its zone of occupation to the detriment of the Austrian economy. Meanwhile, Communist propaganda against the US aid program will doubtless continue to emphasize the following themes: (1) Austria's sovereignty is violated by the control provisions of the program; (2) in extending aid, the US wishes to exploit Austria's economic weakness by subjecting the country to capitalist control; (3) Austria's dependence on the West for aid is preventing Austria from enjoying the benefits of normal trade with the "democracies" of Eastern Europe; and (4) the aid program is ineffective in rehabilitating Austria's economy.

If the USSR decides to admit US aid into eastern Austria under the US-Austrian Relief Agreement, Soviet propaganda will then claim that Austrian independence has been protected by the concessions which the USSR has wrung from the US. Meanwhile, failure by the US to meet the relatively small relief requirements of eastern Austria on an interim basis would almost certainly provide the USSR with a convenient excuse to divide Austria economically by banning the shipment of foodstuffs from the Soviet eastern zone to western Austria.

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TOP SECRET**FORCES UNDERMINING FRANCO'S POSITION**

Despite the strong impression of stability given by the Spanish Government, certain economic, diplomatic, and political forces opposed to Generalissimo Franco are gradually gathering strength and may finally render his position untenable. These forces have already begun to limit Franco's support to the Army and the Falange. Although the Spanish ecclesiastical hierarchy still supports the Generalissimo, the Vatican's new policy of "making it easy for Franco to leave" will soon weaken that support.

Although international condemnation of his Regime has led to pro-Franco demonstrations, strong police measures are nonetheless necessary to repress popular opposition, and it is officially admitted that the number of political prisoners has increased appreciably in the past six months. Moreover, the disadvantages of being excluded from international organizations and conferences--Spain has been kept out of ten international conventions during recent months--are making influential Spaniards aware that Franco's international ostracism is a liability to them and to the Spanish people.

The insecure economic position of the nation is creating increasing alarm in Spanish commercial, banking, and financial circles. Commercial agreements with the UK, Argentina, and Sweden have been helpful to the Spanish economy but insufficient to assure the full productivity of Spanish industry. Franco's agents have been unable to interest American bankers in making loans to his Government, despite his excellent international credit and the fact that no US effort has been made to impede such private financing. Spanish economic insecurity has not yet seriously injured the majority of small businesses, but its continuation will shortly affect retailers and industrial producers adversely. The effects of this insecurity will ultimately be felt by many middle-class conservatives who have regarded Franco as a guarantee of their security.

The recent shift to an anti-Franco policy by the Vatican is the most powerful factor working against the Regime. Rome is

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evidently aware of the peril to the Spanish Church in the explosive situation created by Franco's repressive measures and his inability to heal the breach between the victorious and defeated sides in the Civil War. The Vatican presumably hopes to foster developments which might restore the Spanish people's confidence in the Church by dissolving its close association with the Army and the Falange. The Vatican, however, is not in a position to act very directly, because Franco controls the appointment of the higher clergy. Beyond a general anti-Franco influence internationally, therefore, the Church can best act in Spain by favoring the re-establishment of a limited number of political parties. A "Christian Democratic" movement could perhaps thereby achieve the same importance that similar groups have assumed in other European countries since the war. Leaders of the French Popular Republican Movement (MRP) are interested in this possibility and are in touch with the principal anti-Franco Spaniards, both in Spain and in exile, who could head such a party.

Another significant anti-Franco factor is the developing spirit of cooperation among the non-Communist opposition, both in Spain and in exile, which may lead to a broad anti-Franco coalition. Such a coalition probably would endeavor to present to the UN fresh proposals for the settlement of the Spanish problem. To further this maneuver, both the Government-in-exile and the Pretender may stand aside, thus permitting the moderate elements opposed to Franco to achieve unity and to free themselves from the influence of the extreme left and the extreme right. Don Juan, the Pretender, has applied through the UK Ambassador at Lisbon to re-enter active service in the Royal Navy, "there to await whatever decision the Spanish people may eventually take." Because no recent critical turn in the Pretender's fortunes would require him to give up his struggle for the Spanish throne, this announcement probably indicates only a temporary retirement from active leadership of the Monarchist movement against Franco. This apparent maneuver by Don Juan is essentially similar to the Vatican's strategy of "making it easy" for the Generalissimo to go.

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DEGAULLE'S RE-ENTRY INTO POLITICS

French political circles have been aroused by General DeGaulle's recent announcement that his Rally of the French People (RPF) will present candidates in the coming municipal elections and that a Gaullist parliamentary inter-group has been formed to serve as a nucleus for a future RPF group in the Assembly. Leaders of other parties have accused DeGaulle of attempting to divide the moderate republican forces, especially by means of his inter-group which is designed to cut across party lines and was initially reported to have recruited some fifty-five members from the ranks of the Radical-Socialists, the Popular Republican Movement (MRP), and the rightist parties.

The announcement was well-timed for exploiting a shaky political situation already created by the apparent disunity and confusion in the Socialist Party. DeGaulle's chances for a political comeback are further enhanced by the nation's increasingly grim economic outlook, and by DeGaulle's clear-cut and firm anti-Communist stand at a time when the country has chosen to align itself with the Western Powers. Since his resignation from the Government in January 1946, DeGaulle has been counting on an economic collapse to open the way for his return to power. With the French economy now in a critical state, the threat of a Gaullist coup looms larger than it has at any time since the liberation.

On the other hand, several factors may outweigh those in DeGaulle's favor: his lack of an economic program; the traditional French fear of "the man on horseback"; and DeGaulle's spurning of the three center parties (The Socialists, the MRP, and the Radical-Socialists) which are supported by the bulk of the electorate. DeGaulle's descent into the political arena may lose him the support of those who believed him the true patriot, above party and above politics.

Although it is likely that the RPF will win votes from the Radical-Socialists, the Right, and particularly the MRP in the fall municipal elections, it is doubtful that DeGaulle's re-entry into active politics will seriously upset the nation's present political alignment, barring a major political and/or economic crisis before November.

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TOP SECRET**SOVIET PROPAGANDA REFLECTS MOUNTING US-USSR TENSION**

Within the past week Soviet propaganda attacking US foreign policy has abandoned its charges that US political and economic "aggression" is directed chiefly against the sovereignty of small nations and has turned to the charge that the US has embarked upon a program of military aggression which is especially threatening to the USSR's Balkan Satellites. Soviet propagandists now declare that: (1) the US is planning to send 12,000 troops to Greece; (2) the US is forcing the enlistment of displaced persons in Belgium in an "international brigade" which will support Greek royalists; (3) "General" Griswold is converting Greece into a base for US military operations in southeastern Europe and the Middle East; (4) with the approval of the US, Greek and Turkish troops are massing along the Bulgarian border, violating the Bulgarian frontier; and (5) the US is planning to establish a military base in Iran.

Since these charges are probably characteristic of the Soviet technique of accusing others of the very activities in which the USSR is engaged, they may foreshadow the following "countermeasures": (1) an intensification of "defensive" activity by Satellite countries along the northern border of Greece; (2) the severance of Soviet diplomatic relations with Greece, based on the contention that the present Government in Athens has become a tool in the hands of "American imperialism"; (3) an increase in Soviet "defensive" forces in Bulgaria; and (4) increased pressure on Turkey and Iran by the USSR.

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TOP SECRET**POSSIBLE PRO-SOVIET ALIGNMENT OF THE DOMINION OF INDIA**

The possibility of a pro-Soviet alignment of the Dominion of India is increased both by Indian attitudes toward the USSR and by the personal interests of Prime Minister Nehru. Aware that an analogy exists between the variety of peoples in the Dominion of India and in the USSR--both of which include a majority of illiterate peasants--Indian leaders, especially Nehru, look with envy upon the apparent cohesion which exists among the diverse groups in the USSR and also upon the great strides in scientific and industrial development there. They feel that India has much to learn from the USSR.

The ideal of the educated Indian is the advancement of all Asiatic and colonial peoples and the assumption of leadership by India of a resurgent Asia. Indian leaders believe that the USSR will support these aspirations but that the UK and US, despite pretensions to the contrary, are imperialist-minded and desire the subjugation of the Asiatic. Believing also that India can bridge the ideological gap between the USSR and the Western Powers, the Indian thinks that his country must show sympathetic understanding of the USSR in order to achieve this.

Soviet determination to exploit this situation may be facilitated by Nehru whose influence in the Dominion is predominant. Nehru studied in Russia, as a young man, and his social ideology has always been left of center. When conservative and radical wings of the Indian Congress were struggling for power in the late thirties, it was evident that Nehru sided with the conservatives only because of his belief in party discipline and his devotion to Gandhi. His sympathy with the Communist philosophy was marked. Although Nehru tended to go somewhat to the right during the war when the Communist Party of India sided with the British against the Congress in the latter's struggle for immediate independence, he has since become more and more susceptible to Soviet influence, referring to the USSR as the outstanding country of the world and closing his mind to any criticism of the Soviet Union. (This bias may be further increased by reports from his sister, Mrs. Pandit, now Indian Ambassador in Moscow at the special request of Molotov.) His appointee, Krishna Menon, India's High Commissioner

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in London, is reportedly one of India's most brilliant pro-Communists and can be expected to assess British actions in a light favorable to the USSR.

Another indication of Nehru's point of view is a remark he is reported to have made recently that the US is the only aggressor nation and that its aggressive tendencies must be resisted. Nehru and other high officials of the Indian Government have expressed hostility toward the policy of the US in Japan because of their belief that continued guidance of Japanese affairs by the US would create a division of Asia. The knowledge that the USSR will oppose a continuation of this influence is therefore pleasing to Indian officials as is the belief that the USSR will champion the cause of the Indonesians toward whom the Indians consider that the US and the UK have taken a weak attitude. Because of these forces tending to bring India and the USSR together, Indian leaders will probably support Soviet objectives in matters of little concern to India in return for Soviet support of Indian ideals.

Finally, it is not believed that these considerations apply equally to the Dominion of Pakistan because of a more realistic appreciation on the part of its leaders, particularly Jinnah, of the ultimate aims of the USSR.

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CONTINUED AGITATION FOR GREATER SYRIA

The UK's injunction to King Abdullah of Transjordan to cease agitating for his plan to form a Greater Syria has, in effect, been disregarded. Abdullah called a meeting of Arab leaders recently to discuss the question of Greater Syria; he has also suggested to the Cabinet and the Parliament of Syria that the Syrian constitution be changed to facilitate the execution of his plan. These new moves have little chance of success, however, because the governing group in Syria is not sympathetic to Abdullah's schemes, and King Ibn Saud of Saudi Arabia is violently opposed to them. There are even indications that Syria, Lebanon, and Saudi Arabia may seek the expulsion of Transjordan from the Arab League because of Abdullah's agitation.

At this time the UK is reluctant to take further steps against Abdullah's crusade for two reasons: (1) to antagonize Abdullah is to risk the friendship of the only Arab country which is not trying to compel the UK to evacuate its military bases in the Near East; and (2) agitation for Greater Syria, by weakening Arab solidarity, may be useful to the UK in the Egyptian and Palestine disputes. If, however, it appears that the actions of Abdullah might split the Arab League, the British will almost certainly take positive measures against Abdullah, because the UK values the League for its generally conservative and stabilizing influence on the Arab world.

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TOP SECRET**FRENCH SUPPORT OF BAO DAI**

Since the departure of French High Commissioner Bollaert from Indochina, there has been a marked increase in activity by Annamite organizations in French-occupied areas who seek the return of the former Emperor of Annam, Bao Dai. The appeal for the return of Bao Dai is based ostensibly upon his non-partisan qualities and upon his unique qualifications as representative of the Vietnamese people in negotiating with the French for the establishment of an independent, constitutional monarchy uniting the three Annamite provinces of Tonkin, Annam, and Cochin China.

That this appeal has been instigated by the French administration in Indochina is indicated by the timing of the campaign to coincide with High Commissioner Bollaert's conferences in Paris, the support given it by French colonials through their branches of metropolitan parties, and the former relationship between members of the French High Commissariat and Bao Dai in Hongkong. The French objective is to provide for Ho Chi Minh a popular substitute with whom the French can negotiate for a government which will either exclude the Vietminh or permit the Vietminh to participate only as one of several parties. Although the campaign is intended to show the ex-Emperor that he has sufficient popular support to justify his return, Bao Dai appears to be unconvinced. He has sent a representative to Indochina to ascertain the desires of the people and to determine the real intentions of the French regarding his platform of: (1) a union of the three provinces and (2) independence within the French Union.

Among authorities in France, there is considerable division of opinion as to the advisability of dealing with Bao Dai. Bollaert's sympathy with the movement for Bao Dai's return may have been partly responsible for the Commissioner's recall to Paris; Foreign Minister Bidault is opposed to any negotiations which exclude Ho Chi Minh. If a government headed by Bao Dai is to receive any popular support, the French must grant it the concessions which they have denied Ho Chi Minh, because the demand for unity and independence within the French Union are the sine qua non of all nationalist movements in Indochina. However, it is very unlikely that the French will be willing to grant Bao Dai the necessary concessions to secure his government. If the Vietnam Government is

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excluded by the French, the Vietminh will launch a vigorous propaganda campaign alleging that Bao Dai is a puppet and that the independence granted by the French is illusory. Further terrorism will ensue, and the regime of Bao Dai will be so gravely weakened that it will fail to function as a government through which the French can maintain their influence in Indochina. Thus, the French will eventually be forced to negotiate with Ho Chi Minh, following the failure of Bao Dai, and they will then have lost a political coalition which could offset Vietminh influence.

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TOP SECRET**RIO CONFERENCE SETS RECOGNITION PRECEDENT**

The Rio Conference's approach to problems posed by the recent coup d'etat in Ecuador constitutes an important contribution to the growing body of precedent on the delicate question of membership in the Inter-American System.

Two questions confronting the Conference were: (1) would the Conference continue to recognize the delegate of the Velazco Ibarra Government in Ecuador after that Government had been deposed; and (2) would the Conference, when asked to re-seat the same individual as the accredited representative of the new Government, acquiesce in a collective step that might be construed as recognition of a Government which the several countries had not yet recognized. The first of these questions the Conference answered affirmatively by ignoring the coup d'etat until the Ecuadoran delegate himself directed attention to it; the second, it answered negatively by rejecting the Ecuadoran delegate's credentials as Foreign Minister of the new Government in Quito.

Historically, the official Pan American Union view has been that all American States are "as of right" members of the Inter-American System, and the draft Organic Pact of the Inter-American System, to be considered at Bogota in 1948, embodies an unqualified statement to that effect. This historical Pan American Union view has generally been taken to mean that non-recognition of one state by some or all of the other states does not prejudice that state's right to membership and to such privileges of membership as that of taking part in inter-American conferences.

Recent developments have tended to modify the Union's traditional approach to the problem. Inter-American conferences are, to be sure, "invitation affairs," in a sense. The Mexico City Conference of 1945, however, was convened as a "special conference," and the Mexico Foreign Office issued no invitation to Argentina. Nicaragua, similarly, received no invitation to the current "special conference" at Rio de Janeiro, to which the bids were issued by the Pan American Union Governing Board itself rather than by the host country. To these departures from the previous practice can now be added the Rio Conference ruling

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that, in effect, a country not recognized by the other American Republics cannot accredit a delegate to an inter-American conference.

The application of this emergent principle would raise thorny problems as to what constitutes recognition. Must a state, for example, in order to exercise its rights as a member of the system, first win recognition from each of the other 20 republics, or would recognition by a majority of them be enough? Does recognition by a representative body like the Pan American Union Governing Board carry with it recognition by the states it represents in such fashion that these states cannot subsequently reopen the question? And, again, if the right of each state to membership in the system is no longer absolute, should the new principle governing the matter be written unambiguously into the Organic Pact to be considered at Bogota? These questions are certain to receive careful study in hemisphere chancelleries through the months remaining before the Bogota Conference.

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TRENDS IN BRIEF

GENERAL

Further discussions of a British proposal to merge Iranian Airways (Iranair) with another licensed Iranian airline under British technical control have been postponed (see Weekly Summary of 15 August, page 1). The UK has accepted the US premise that until all possibilities for a settlement of financial difficulties between TWA and Iranair have been exhausted, any third party proposals would be premature.

If the Majlis rejects the Soviet-Iranian oil agreement (as appears probable), Iran will then be the object of intense Soviet propaganda efforts to prejudice world opinion. The Iranians may counter these efforts with an explanation that they have decided to exclude all foreign interests from northern Iran and to exploit the mineral resources of the area themselves, adding that if oil should be found, it would be supplied to the USSR at world prices. The US and UK have indicated that they may support this explanation. An alternative Iranian move, which would forestall Soviet tactics indefinitely, would be the declaration that Iran can take no further action until the UN has established a policy for making the world's oil resources available to all nations.

WESTERN EUROPE

The Salazar regime in Portugal has been considerably strengthened through the success of the new Minister of Economy in waging a campaign to reduce living costs (see page 1).

Unrest in the French colonial empire will probably continue until France presents a program of constructive reforms for the approval of the subject peoples (see page 2).

While the split between French Socialists and Communists has widened considerably, the Socialists are still sensitive to Communist influence upon the left-wing of the electorate (see page 4).

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According to German Communist leaders, the USSR is failing in its efforts to communize industry and agriculture in the Soviet Zone Germany (see page 5).

Morale in the US-UK Zones Germany has begun to improve following the recent increase in food imports, the establishment of the Bizonal Council, and the announcement of proposals for European economic recovery. During August, daily coal production has advanced to 234,000 tons, as compared with the July daily average of 225,000 tons. The railroad-car-repair program in the US-UK Zones has shown, for the first time, an increase in the number of cars repaired over those fallen out of use (see Weekly Summary of 11 July, page 3).

Soviet confidence in the eventual communization of France may be reflected in the reserved propaganda directed at French colonial policy at a time when Soviet propaganda is mercilessly attacking the colonial imperialism of the US, the UK, and the Dutch. Should the Kremlin later abandon this tactful treatment of the French colonial question, it would presumably indicate that the Communists no longer viewed optimistically their chances of success in France.

EASTERN EUROPE

The tactics of the USSR in the UN General Assembly, which is to convene in September, are probably foreshadowed in current Soviet propaganda (see page 6).

Soviet attempts to improve Rumanian rail transport, through the centralization of control and the extension of existing lines, will probably not eliminate the fundamental weaknesses of the Balkan railways (see page 8 and insert).

Airlines of the Satellite States have been barred from Turkey and Greece; similar action by Italy will prevent these airlines from obtaining access to the Near East (see page 11).

The recent trials of members of the Polish Peasant Party reveal again Communist determination to eliminate all opposition

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parties. The arrest and trial in the autumn of Opposition Leader Mikolajczyk is expected as a culmination of this policy, despite Churchill's assurance that the UK would guarantee his personal safety upon his return to Poland.

Future Communist strategy in Czechoslovakia has been clarified by recent denunciations in the Communist press of the National Socialist Party (leading opponent of Communist leadership). It is expected that a concerted effort will be made to weaken all Communist opposition in Czechoslovakia by means of propaganda, parliamentary action, and extra-legal methods.

An exodus of Greek Communist leaders from Athens has been ordered by the KKE Central Committee. This order reverses previous instructions which kept Communist leaders in Athens despite mass arrests by the Greek Government. It is a further indication--together with the USSR vetoes in the Security Council, the recent establishment of a "free" Greek government, and the withdrawal from Athens of Satellite diplomats--that strong, undisguised military action against the Greek Government is imminent.

WESTERN HEMISPHERE

Communist domination of Martinique has been achieved through tactics and appeals which could also be successful in Panama and in nearby British possessions (see page 12).

Economic pressures in Brazil are forcing the Brazilian Government to abandon a cautious financial policy and adopt expansionist measures that may be harmful to US interests (see page 14).

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A R T I C L E S

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IMPROVED ECONOMIC CONDITIONS IN PORTUGAL

The Salazar regime has been substantially strengthened by the accomplishments of the new Minister of Economy whose vigorous campaign to bring down the high cost of living has improved the economic situation of the masses. Increased importations of foodstuffs, the repression of speculation, and the removal of controls on internal distribution movements have forced down the prices of necessities. Black market operations are now unusual.

The Minister of Economy has repeatedly stated that hoarding or profiteering would be considered sabotage against the State, and he has prosecuted both rich and poor persons who have violated that policy. A salutary effect on public opinion has been produced by the arrest and punishment of certain black market operators, whose economic status has hitherto protected them.

By thus removing some of the causes of popular discontent, Salazar's Government has obtained considerably wider support. Such improvement in public morale doubtless encouraged Salazar in his recent decision to jail and prosecute opposition leaders who have long agitated for the overthrow of the regime.

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UNREST IN THE FRENCH COLONIAL EMPIRE

The French have been attempting to meet the social and political agitation in their Asiatic and African colonies by programs of democratic reforms and promises of eventual "autonomy within the French Union." Native nationalists, encouraged by what they consider the benevolent attitude of both the USSR and the US toward the aspirations of dependent peoples, have become increasingly intransigent and have greeted each French move toward improvement with demands for complete independence. Communists, both in metropolitan France and in the colonies, demand that natives be given equal rights with Frenchmen, but insist that union with France be preserved. Because of this insistence, the natives have not generally supported the Communists but rather have made appeals to the US and the UN. This situation not only has furnished the Communists with excellent propaganda material for their thesis that the US seeks to take over the French Empire but also has made other French elements extremely suspicious of any US offer to help France alleviate colonial unrest.

In Equatorial Africa, where French citizenship has been granted to all natives, the morale of the French Civil Administration has descended to an extremely low level. The natives, who feel free and equal, refuse to work. In some instances tribes have reverted to cannibalism and slave trading as manifestations of their independence. French colonial officials trace these activities to the kind of understanding the natives have of US interest in colonial peoples and of the Atlantic Charter.

In North Africa, President Roosevelt is quoted by nationalists as having guaranteed the abolition of French domination in that area, and statements by Arab leaders are circularized to the effect that they have received US assurances of support for their aims. Rumors are reported from Paris that the US has asked for Bizerte in exchange for aid to France; in Morocco, the French Residency makes minor diplomatic thrusts to offset the favored position of the US representative to the Sultan.

In Madagascar, the French are having great difficulty in containing rebel activity which has recently increased. Fighting is expected to continue there for some time, and order probably

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cannot be restored until concessions are made to the insurgents. French officials there are convinced that the rumor of American missionary encouragement to the rebels has a basis in fact.

The French are hampered in their colonial program by reluctance to believe that their own policies, rather than the machinations of other powers, may be causing colonial unrest. Unless France can devise a program of constructive reforms to present for approval to the subject peoples of the colonies (instead of imposing reforms without adequate consultation), future decisions on colonial matters may be taken out of the hands of the French Assembly by native action.

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FRENCH SOCIALIST-COMMUNIST CLEAVAGE

The cleavage between the French Socialists and the Communists has so widened that the latter were unable to obtain recognition from even the left-wing Socialists at the recent Socialist Party Congress at Lyon, although both groups once had a close working relationship. Not only did the Socialists ignore a letter to the congress from Communist Leader Thorez, but they also charged that the USSR still holds 800 militant Socialists imprisoned at the concentration camp in Buchenwald.

That the Socialists remain sensitive to Communist influence upon the left-wing of the electorate was shown, however, by the passage of several resolutions which urge the Government to follow a program of stricter socialist tenets which would appeal to the working classes. In this manner, the Socialists hope both to counter recent Communist charges that the Socialists are "sliding to the Right" and to bid for the working-class vote in the fall municipal elections.

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CONDITIONS IN THE SOVIET ZONE GERMANY

In the opinion of Communist leaders in Germany, the efforts of the USSR to communize the industry and agriculture of the Soviet Zone in Germany are failing. Thus far, such efforts have lowered production, increased production costs, and alienated the German people.

Despite preferential treatment for high producers, production per worker in state-owned plants has been steadily sinking, while costs have risen. When the industries in the Soviet Zone were socialized, all managing personnel unacceptable to the USSR were removed. The new managers, while politically acceptable, had neither the technical skill nor the experience to fill their positions. The workers are discontented over the low food rations, the lack of personal profit, and the fact that efficiency and effort are rewarded only by increased quotas.

The results of agrarian reform in the Soviet Zone are similar. The failure of farmers to meet their quotas has led to the imposition of stringent controls. The average farmer finds it impossible to meet his obligations because his necessary expenditures exceed his earnings by as much as 45% annually. The agricultural crisis is caused by faulty administration and lack of basic equipment, hence controls can not improve conditions. Faced with this impossible situation, increasing numbers of resettled Germans are deserting their land.

A new series of industrial dismantlings by Soviet officials has seriously impaired the railroad lines and coal mines which are desperately needed in the zonal economy. The USSR, pessimistic about its prospects for rapid westward expansion, is apparently willing to forego efforts to gain the good will of the German people for the short-term advantage accruing from the seizure of German industrial equipment.

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TOP SECRET**POSSIBLE SOVIET TACTICS IN THE GENERAL ASSEMBLY**

Indications of probable Soviet tactics in the September session of the UN General Assembly are to be found in current Soviet propaganda. The USSR's principal target will probably be US economic aid to Europe. In extensive treatment of this subject, the Soviet press has charged that the purposes of the program are: (1) to destroy the sovereignty of the recipients of US aid; (2) to make all Europe an economic vassal of Wall Street; (3) to rebuild the economic foundations of fascism; and (4) to revive German militarism. Soviet observers contend that the Marshall proposals are identical in principle to the program of US aid to Greece and Turkey, and they argue that the proposals are in direct violation of the principles of the UN. USSR representatives in the General Assembly are therefore likely to advocate UN supervision of the European recovery program and may seek to place it under the Economic Commission for Europe.

Another favorite topic of Soviet propagandists has been "Western imperialism" as exemplified by the US, the UK, and the Netherlands. In order to gain the favor of colonial and semi-dependent peoples, the USSR may endeavor to bring this issue before the Assembly and may try to enlist colonial support for a resolution demanding the withdrawal of all foreign troops from non-Axis territory.

Soviet writers and commentators continue to emphasize the subject of atomic control, and an additional move by the USSR before the Assembly will probably be the revival of this issue in connection with a proposal for general disarmament.

The final position of the USSR on the Greek-Balkan situation, recently placed on the agenda of the General Assembly at the instance of the US, is still in doubt. There is, however, a very real possibility that the Balkan Satellites, and perhaps the USSR itself, will sever relations with the Greek Government at Athens and will recognize a provisional Greek Government before the Assembly convenes. (The USSR and the Satellites have already recalled most of their diplomatic personnel from Athens.) Soviet and Satellite recognition of the Greek insurgents would not only present the Assembly with a

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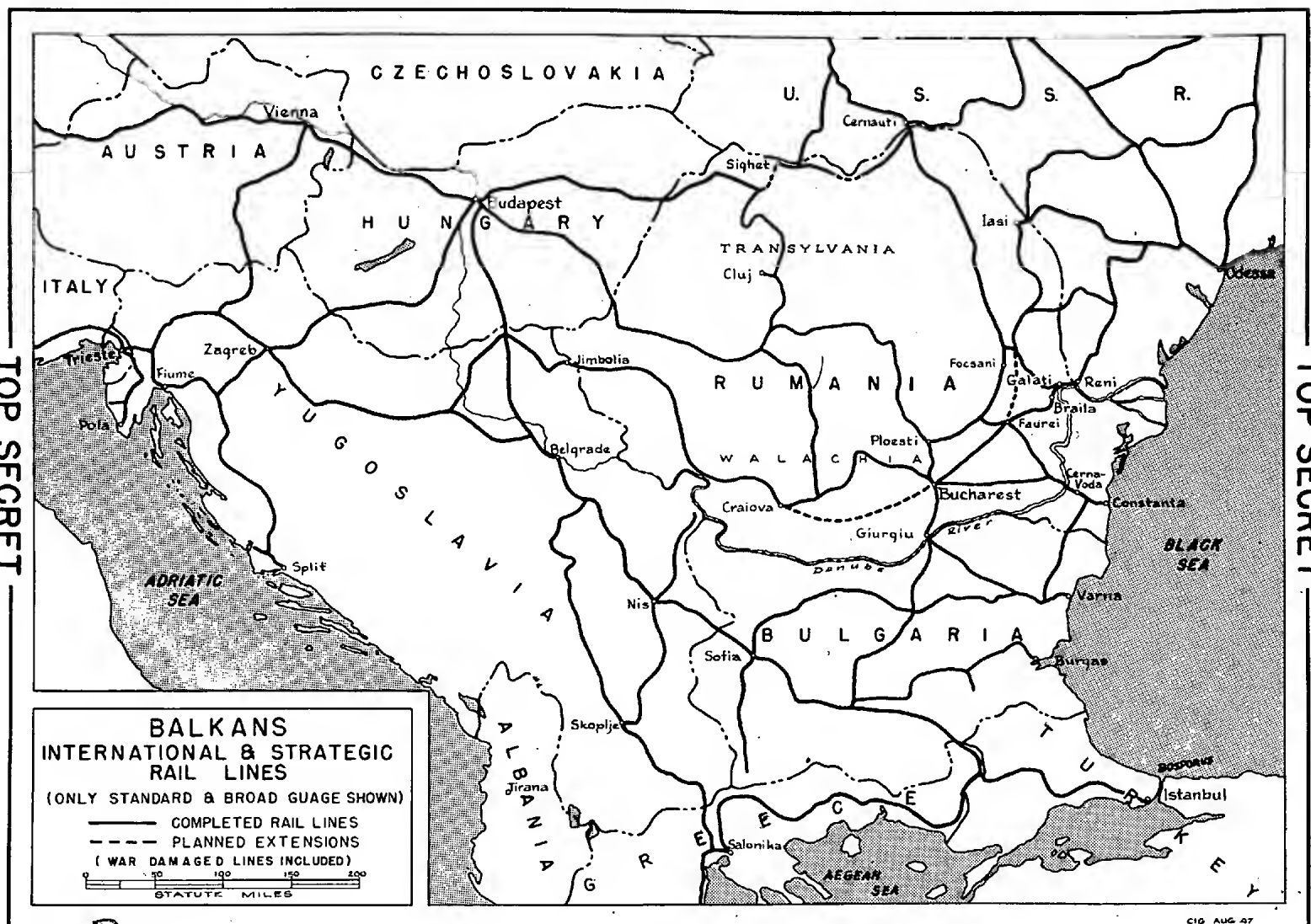
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fait accompli but would enable Soviet delegates to argue that the changed situation had made the findings of the Balkan Investigating Commission irrelevant. The Soviet and Satellite delegations might then advocate that a degree of recognition, similar perhaps to that accorded the Indonesians, be given the provisional Greek Government by the UN.

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I N S E R T



TOP SECRET**RAIL TRANSPORT IN RUMANIA**

While the USSR will undoubtedly improve the operational efficiency of its Satellite rail transportation systems by centralizing their control in Moscow, neither tighter control nor the extensions now under construction will eliminate the fundamental weaknesses of the Balkan railways.

The recent Rumanian-USSR railway agreement probably indicates Soviet intentions with respect to the rail systems of its other Satellites. By this agreement, the Communist-controlled Government of Rumania has virtually abdicated control of its railway system. Soviet military freight traffic will operate through Rumania without Rumanian knowledge of the nature of the shipments and at no expense to the USSR. The Rumanians, furthermore, have resumed construction on large-scale railway projects which were instituted before 1939 and were continued by the Germans. The USSR apparently considers these projects sufficiently valuable to warrant the expenditure of substantial Rumanian funds and resources which might otherwise be applied in part to the reconstruction of railways within the USSR. This emphasis on Rumanian railway development is particularly puzzling because the Rumanian railways are not now operating to capacity, and their operations may be further restricted in the future by fuel shortages. The new lines, moreover, do not appear to reflect compelling economic considerations from the point of view either of Rumania or the USSR.

The fundamental strategic weaknesses of the Balkan railway system from the Soviet point of view are: (1) the change of gauge between the Soviet and Balkan networks (it would be far more difficult, for example, for the USSR to widen the gauge of Balkan lines during offensive operations than it would be for an invading enemy to narrow the gauge of lines within the USSR); (2) the limited capacity for movement of freight between the Ukraine and the Upper Danube on first-class rail lines over level terrain; (3) the great barrier of the Danube, which is crossed by no rail bridge for 400 miles between Cerna Voda and Belgrade (the only trans-Danubian rail traffic along the southern border of the Wallachian plain is funneled through the Giurgiu rail ferry); (4) the lack of an adequate rail network along the Dalmatian and Albanian coasts below Split

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for the protection of important Communist positions at the head of the Adriatic; and (5) limited rail connections to the Bosphorus and the Aegean.

The above weaknesses cannot be rapidly eliminated. (1) There is no solution to the problem of transshipping freight where standard and Soviet broad-gauge lines meet because the Balkan lines will remain standard gauge or narrower. It appears that the USSR, however, is requiring that newly-constructed and strategic lines provide the necessary road-bed conditions, as well as bridge and tunnel clearances, so that widening to the Soviet gauge could be quickly effected in an emergency. Even this expedient, however, would be subject to severe practical disadvantages. (2) Through connections across Rumania will be somewhat improved by completion of the Craiova-Bucharest-Faurei-Iasi trunk line, parts of which are in operation. Because the existing line to the west of Craiova is single track, however, this line does not actually provide an additional artery up the Danube valley. The Transylvanian network, characterized by limited east-west through connections, will be somewhat improved for Soviet use by the repair of extensive war damage and by the connection of two minor lines which will form a link between Cernauti and Sighet. (3) There are no signs of bridge construction on the Danube or of the installation of additional rail ferries at three points where Rumanian and Bulgarian lines approach each other. (4) A large part of Yugoslavia will still have only an inferior narrow-gauge network, and Albania will remain indefinitely without international rail connections. (5) The Communist-controlled Balkan network provides only a single rail line for 200 miles to the west of Istanbul; rail connections to Salonika consist of only the line in the Vardar valley of Yugoslavia and a vulnerable route from Bulgaria along the Aegean coast. The latter line runs through Turkey at one point and, accordingly, could be used in an emergency only with Turkish acquiescence or by employing force. An additional line from Sofia down the Struma valley has one section of narrow-gauge line, partly in Greek territory, which could be changed to standard gauge by anyone controlling both sides of the Greek-Bulgarian border.

The repair of a bridge at Reni will effect the most important strategic change in the Balkan network by substantially increasing

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the capabilities of the USSR to move freight into Bulgaria. This bridge, with the existing Danube bridge at Cerna Voda, will provide uninterrupted rail connection from the USSR to the Bulgarian-Turkish border. It will also provide a lateral connection between the Bulgarian, Rumanian, and Soviet Black Sea ports, entirely independent of the old Rumanian trunk line from Bucharest through Ploesti and Focsani. These developments will, in fact, create in 1948 these three separate trunk lines from the Soviet Union southward, on level ground, to the east of the Transylvanian Alps: (1) Cernauti-Ploesti-Bucharest-Craiova; (2) Iasi-Faurei-Bucharest-Giurgiu; and (3) Odessa-Braila-Cerna Voda-Varna.

While the rail developments in Rumania do not in themselves point toward an imminent military emergency in this area, they will increase somewhat the Soviet military potential in Bulgaria. It is entirely likely that these developments represent only the beginning of a program which the USSR will later extend and make more decisive.

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TOP SECRET**OBJECTIVES OF EASTERN EUROPEAN AIRLINES**

Eastern European countries, with the exception of Czechoslovakia, have thus far encountered determined opposition from Turkey and Greece to their objectives of establishing air routes to the Near East. If Italy also cooperates with the Western Powers in this respect, it appears likely that airlines of the Satellite States will be prevented from attaining their aims.

In this impasse, the Satellite States are attempting by devious means to overcome Turkish intransigence. Yugoslavia had hoped for British assistance in obtaining landing rights in Turkey for the Yugoslav airline through the now suspended UK-Yugoslav air discussions. Rumanian aircraft have apparently overflown Turkish or Greek territory at high altitude after having secured landing rights from Lebanon and Palestine for special non-scheduled flights. Although it may be beyond the capabilities of the hard-pressed Royal Hellenic Air Force to intercept illegal traffic, it is well within Turkish capabilities to prevent such over-flights.

The Czechoslovakian airline, which has been denied permission to overfly Rumania enroute to Turkey, Palestine, Egypt, and Iran where it has the necessary agreements, has been forced to fly a circuitous route to the east via Belgrade, Rome, and Athens. If a Polish air agreement with Italy is concluded similar to that reported between Italy and Rumania, a possibility exists that the Polish airline(which, although lacking landing rights in Greece, has Egyptian landing rights) may use its newly-acquired four-engine French transports for direct flights from an Italian base to Cairo. A current US-UK attempt to align Italy with Western Europe in matters of air policy would, if successful, prevent such a development and thus bar the Satellite States from the one remaining route to the Near East.

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COMMUNISM IN MARTINIQUE

The success of the Communist Party in Martinique, where it has used tactics that are both adaptable to all Caribbean areas in which major social divisions follow racial lines, and markedly different from those it has adopted over the hemisphere as a whole, now seems assured.

The island's newly-organized Groupement Republicain, Democratique, et Social, a belated united front of anti-Communist elements, cannot therefore be interpreted in terms applicable to other Western Hemisphere situations. Such a move elsewhere in the Americas would be likely to presage immediate reverses for the Communists. In Martinique, where the Communists have already won over a majority of the population (two of Martinique's three delegates to the French Assembly are Party members, as are both its delegates to the French Council), it is an empty gesture.

The Martinique Communists have followed the classical Marxist propaganda pattern. In bidding for the support of the impoverished Negro majority of the island's population, they have fixed attention upon the rich whites as the direct cause of the Negro's economic ills; they have promised the Negroes the mansions of the large landowners; and they have identified the Communist Party with the struggle for racial equality, insisting that "for a Negro to be against the Communist Party is to be against himself." They have made skillful use of "evidence" of the alleged subordination of US Negroes, of US lynching statistics, and of the supposed activities of the Ku Klux Klan; and they have driven home the theme that the "capitalist-dominated" US Government must, if for no other reason than because of racial tensions within its own frontiers, act as the natural enemy of social progress and democracy, and thus as the natural enemy of the USSR. The Negroes' complete ignorance of the political, economic, and social character of the Soviet Union has thus been the Communists' major ally.

The Martinique Communists' emphasis upon an egalitarian redistribution of wealth at the expense of the whites is sharply at variance with the collaborationist approach the Communists have adopted in the republics of Latin America. There they have made

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no use of themes concerned with social revolution but have based their appeal rather on a vague concept of "democracy" and upon opposition to US "imperialism."

The Communists' success in Martinique is attributable to: (1) the frank use of racial conflict in their propaganda; (2) the early demoralization and continued disunity of the island's anti-Communists; and (3) the fact that the island is represented in the legislative branch of the French Government, which means that any strength the Communists pick up in Martinique can make itself felt in the division lobbies in Paris.

There is no reason to believe that similar Communist tactics will not pay large dividends in other racially-divided Caribbean areas, such as the British West Indies and the Republic of Panama (where British West Indian workers and their descendants are a substantial minority of the population).

Although Martinique under Communist control will naturally be hostile to the US and will pose special problems in this connection because it is a European dependency, it is unlikely to cause major difficulties so long as the French colonial office (or other controlling agency) is relatively free of Communist domination. But if the Communists were to come to power in France, Martinique would as a matter of course become a potential base not only for the spread of Communism in the Caribbean but also, because of its official channels of communication with an important Communist power in Europe, for intelligence and espionage activities directed against the entire hemisphere.

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TOP SECRET**INFLATIONARY PRESSURE IN BRAZIL**

Exporter-industrialist pressure is apparently forcing the Brazilian Government to abandon its recent cautious financial policy in favor of expansionist measures that may accentuate present inflationary trends, sharply retard the development of a mass market for US goods, and discourage further US investments.

Such recent events in Brazil as a marked decline in exports, a greater number of bankruptcies, a sharp fall in volume of sales, and an alarming though short-lived bank run, have been interpreted by many informed observers as indications that an economic recession is imminent. The exporter-industrialist groups contend that an inflationary policy, including such measures as credit expansion and exchange depreciation, will prevent the recession. Depreciation, they say, will help Brazil to meet the growing competition in the world market and close the gap between exports and imports, while relaxation of credit controls will help entrepreneurs to maintain the high-profit margins which underlay the war-time and immediate post-war internal boom.

The Government needs the support of these groups and would, therefore, presumably like to meet their wishes. At the same time, the Government is clearly reluctant to depreciate the cruzeiro, since depreciation would: (1) increase the cost of servicing its foreign debt; (2) reduce its capacity to import urgently-needed public works equipment; and (3) be interpreted by potential foreign investors as evidence of economic instability. On the other hand, Brazil cannot easily expand credit further without depreciating the cruzeiro, since the rise in prices that credit expansion would tend to produce would, in the absence of depreciation, reduce exports and further impair the country's exchange position. Consequently, the Government appears to have made an effort to find substitutes for the two measures urged by the exporter-industrialist groups -- for example, the 40% tariff increase it has sponsored at the ITO Conference in Geneva (such an increase would tend to reduce imports and, by forcing prices up, aid the industrialists), and the proposal to finance the coffee crop up to 75% of its current market quotation as an aid to the principal exporters.

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While these substitute measures may postpone depreciation for a time, pressure for depreciation will probably continue because the inflation will pull Brazilian prices further out of line and raise costs of production. Since Brazil is not yet an active member of the International Monetary Fund and is therefore free to carry devaluation to any lengths it sees fit, any devaluation it might decree would be regarded by non-Brazilians as only a first step and would therefore contribute to the uncertainty and instability of the economic situation in Latin America as a whole. Moreover, the resultant lack of confidence in Brazil's immediate future would tend to reduce new investments from the US (although existing US investments in Brazil might benefit initially from the continued high profits). Again, any move toward inflation and devaluation, considered in the context of the Brazilian Government's demonstrated incapacity to deal effectively with the fiscal problems, suggests the imminence of a "boom and bust" cycle, at the end of which Brazil can be counted on, pleading the threat of a growing Communist movement, to turn to the US for large-scale financial assistance.

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TRENDS IN BRIEF

GENERAL

The threatened collapse of Iranian Airways may eliminate US participation in air transport in Iran and precipitate a struggle for participation by other powers (see page 1).

Gromyko's remarks on 14 August in the Security Council, in reply to the US warning that abuse of the veto may lead to UN action in Greece through recommendations of the General Assembly, indicate that the USSR anticipates possible withdrawal from UN upon finding the veto nullified by majority rule in the General Assembly.

Action concerning sovereignties in the Antarctic may be undertaken by the UK before the beginning of the forthcoming Antarctic summer season. The UK feels that continued inaction in the face of Chilean and Argentine "intrusions" into UK territorial areas may weaken the British position, and it is intended therefore to re-assert UK sovereignty over its legally-established possessions. Eventually, however, the issue of sovereignty in the Antarctic will probably be brought before the UN or the International Court.

WESTERN EUROPE

The UK Government's plans to deal with the current financial situation have evoked disappointment, but bold action in carrying out these plans could relieve the crisis. It remains to be seen whether the Cabinet will have the political fortitude to act with necessary ruthlessness. The Government now has nearly ten weeks in which to undertake remedial measures before Commons reconvenes. Unless the situation is clearly improved (either by internal measures or by assistance from the US) within that time, grave political developments are likely. The Conservative-Liberal opposition will return with renewed vigor; the influence of Labor's left wing may increase. Either mounting public dissatisfaction or left-right disintegration within the Labor Party can precipitate a general election.

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The position of the anti-Communist Socialists in Italy has been bolstered by the recent success of the Lombardo Mission to Washington in procuring a billion dollars in cancelled debts and liquid assets. Lombardo's new prestige may make it possible for him to carry out his plan for combining the moderate Socialists into a strong anti-Communist force. As Premier De Gasperi and right-wing Socialist leaders have already approved the eventual broadening of the present cabinet to include anti-Communist Leftists, Lombardo's new influence may enable De Gasperi to include such Socialists in the cabinet and thus counter Communist charges that the present Government lacks working-class representation.

Previous indications of the semi-secret resumption of Spanish-French trade (see Weekly Summary of 1 August, page 2) seem to be confirmed by a recent guarded statement by French Foreign Minister Bidault before the Assembly Committee on Foreign Affairs. While declaring that there would be no change in the general policy of France toward Spain under Franco, Bidault said that he wished to correct certain "anomalies" resulting from the closed border between the two countries. The caution with which the French Government is approaching this matter springs from fear of leftist criticism of any relations with Franco.

EASTERN EUROPE

New plans of action by the Greek Communists probably include the establishment of a "free" Greek government in the near future and further military action in northern Greece (see page 2).

Freedom of the press in Rumania has disappeared completely under the Communist-controlled Groza Government. With the suspension in early July of the politically independent JURNALUL DE DIMINEATA and of DREPTATEA, the official organ of the National Peasant Party, governmental control of the press is final. Of the twenty-one dailies remaining in Rumania, only three make any pretense of independence, two following the Communist line and the third offering no resistance whatever at present.

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NEAR EAST-AFRICA

Rumors of increased Soviet troop concentrations on Iran's northwest border remain unconfirmed. Similar rumors circulated early in June were not substantiated by air reconnaissance conducted by the US Military Air Attache Tehran.

The Indian press has severely criticized the US for failing to take a strong stand against Dutch actions in Indonesia and voices the suspicion that the US is at heart imperialistic and sympathetic to the continued subjugation of Asia by the white races. By contrast, the attitude of the USSR has been given wide praise. Such comment implies that unless positive steps are taken to assure complete self-determination in Asia, US prestige in India may continue to decline and pro-Soviet sentiment to increase.

FAR EAST

The increasing weakness of the Siamese Dhamrong Government in the face of a possible coup by dissident Army elements may result in the displacing of Premier Dhamrong in an effort to re-inforce the present coalition (see page 3).

The decision of the Security Council to permit participation by Indonesia in the discussion of the Dutch-Indonesian Republic case marks a growing tendency to make the United Nations a forum in which colonial peoples may express their desire for independence. The UK, France, and Belgium (the three colonial empires represented on the SC) opposed Indonesian participation because they perceived in the request another manifestation of colonial insurgence. The majority members of the SC overruled the legal objection that Indonesia had not attained statehood and took the view that the Linggadjati Agreement has established the Republic as a de facto government. This practical recognition of Indonesia as a nascent state will probably give new impetus to the demands of other colonial peoples, such as the Arabs of French North Africa, the Vietnamese, and the Sudanese.

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WESTERN HEMISPHERE

Rapid depletion of Iceland's foreign exchange reserves, accelerated by the present poor herring season, is causing marked deterioration in Iceland's economy and may lead to an economic and political crisis early this fall. Continued depletion of the foreign exchange may lead to the fall of the present Government and its subsequent replacement by a coalition government including the Communists who withdrew from the Government when the US-Icelandic Airport Agreement was negotiated in October 1946.

Latest reports from Asuncion indicate no radical change in the indecisive military situation of recent days. The Government's General Staff, which says it is about to launch a counter-attack, is markedly more optimistic than it was a week ago on the grounds that: (1) morale of its troops has taken a turn for the better; and (2) forces proceeding from the north against Asuncion (after being by-passed by the rebels in their down-river movement) will tip the scale in the Government's favor. The situation within Asuncion has nevertheless become steadily more difficult. Business is at a standstill, and a week has passed without commercial air traffic, the immediate resumption of which is unlikely. The regular river boats, upon which Asuncion depends for the bulk of its supplies, are halting at a point ten miles below the city. Butter, milk, and bread have disappeared from Asuncion's markets, and present supplies of meat and vegetables will last only a few days.

Ecuador has made representations to the Peruvian Government concerning an alleged "surprise attack" by Peruvian soldiers at a point on the Peru-Ecuador border. At the same time, it has put officers with special instructions from the Ministry of Defense in command of its two southern border battalions. Peru has charged Ecuador with responsibility for the incident.

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THREATENED COLLAPSE OF IRANAIR

The imminent collapse of Iranian Airways (Iranair) may eliminate US interests in Iranian air transport activities and precipitate a struggle for participation by other foreign interests in these activities. The financial position of the airline could, however, be stabilized through decisive action by the Iranian Government. The Department of State has recently instructed Ambassador Allen to urge the Iranian Government to assume control and refinance Iranair.

US interests in Iranian Airways are represented by TWA, which owns 10% of Iranair stock and has operated the line under a management contract. TWA has been encountering severe difficulties in collecting its overdue management charges and is continuing to insist on payment. This problem, added to TWA's other financial difficulties, has brought the company to the verge of withdrawal from Iran.

British Overseas Airways Corporation (BOAC), which may be attempting to exploit TWA's difficulties with management contracts in several other Near Eastern countries, has proposed a merger of Iranair with a British-promoted local Iranian airline. This latter company, hitherto inoperative, has an Iranian license and would use British aircraft under BOAC management and technical control. Such a merger would be favorable to the existing British commercial air establishment in the Near East and would provide feeder traffic for British international air services.

Iran cannot operate an airline satisfactorily without foreign assistance and prefers US aid to that of any other nation. It is possible therefore that the Government will undertake to effect the reorganization necessary to insure the continuation of US technical support. Only if US support is withdrawn entirely is Iran likely to consider some form of British support. The collapse of air transport operations in Iran would be interpreted by the USSR as a weakening of US-UK influence in Iran and as a favorable opportunity to renew its offers of a joint Soviet-Iran airline. It is doubtful, however, in view of the present stiffening of Iran's attitude toward the USSR, that Soviet participation in Iranian air transport will materialize soon, even though all other alternatives fail.

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NEW GREEK COMMUNIST PLAN OF ACTION

Despite the apparent stalemate in Greek hostilities following the Soviet veto in the Security Council, it is believed that the recent conferences among the Balkan Satellite States have produced a new plan of action against Greece. Redispotion of troops north of the Greek border has been reported; the Greek Communists have quickly reorganized after the disruption caused by the Government's mass arrests; and the guerrillas have utilized the period following the end of the Army drives to regroup their forces.

Time is no longer on the side of the Communists in Greece, and it is probable that they will act to establish a "free" Greek government within the next two months. Such a government would in fact be controlled by the USSR through Greek Communists. Moreover, Greek Communists have probably agreed that, should they gain military control of northern Greece, they will cede Aegean Macedonia to the present People's Republic of Macedonia (a federated state within Yugoslavia).

For a conjectural chart of the military and political chain of command from the USSR to the guerrillas in Greece, see Supplement.

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TOP SECRET**POSSIBLE CHANGES IN SIAMESE GOVERNMENT**

A long-standing contest for power in the Siamese Government between the two-party government coalition led by Siamese Elder Statesman Pridi and the opposition civilian and military elements has recently been intensified. Reports indicate the possibility of a Cabinet shakeup on one hand and a revolt by dissatisfied junior Army officers on the other.

The present Government led by Dhamrong has been kept in power for nearly a year largely through the strength of Pridi's following, most of which is organized in the Free Thai movement. This group was the pro-Ally Siamese underground led by Pridi during the recent war. The friendship between Pridi and General Adul, Commander in Chief of the Siamese Army and second to Pridi in the leadership of the Free Thai Movement, has hitherto assured the Dhamrong Government of support by the majority of the Army.

The civilian parliamentary opposition has criticized the Government for inefficiency, for corruption, and for a monopoly of power in the interests of the Free Thai movement. The opposition has thus far been unable to oust Dhamrong through debates in Parliament. However, dissident junior Army officers, dissatisfied with the high cost of living which they attribute to an incompetent civilian government, have made plans for a bloodless coup d'etat, reportedly scheduled for late in August. A similar coup was averted in mid-July by General Adul. When Adul learned of the plot, he warned Pridi and government leaders of the intended revolt and urged reforms to forestall it.

Since this warning, no basic changes have been made by the Dhamrong Government to relieve the dissatisfaction of opposition elements. Efforts have been made to reinforce the position of the Government by appointing reliable members of the Free Thai movement to such key posts as the Directorate of Police. Such steps have only added to opposition charges of Free Thai monopoly of the Government. Additional impetus may be given to the plans of the nationalistic Army elements when they learn of the Government's failure to regain any of the disputed border territories retroceded to France late in 1946.

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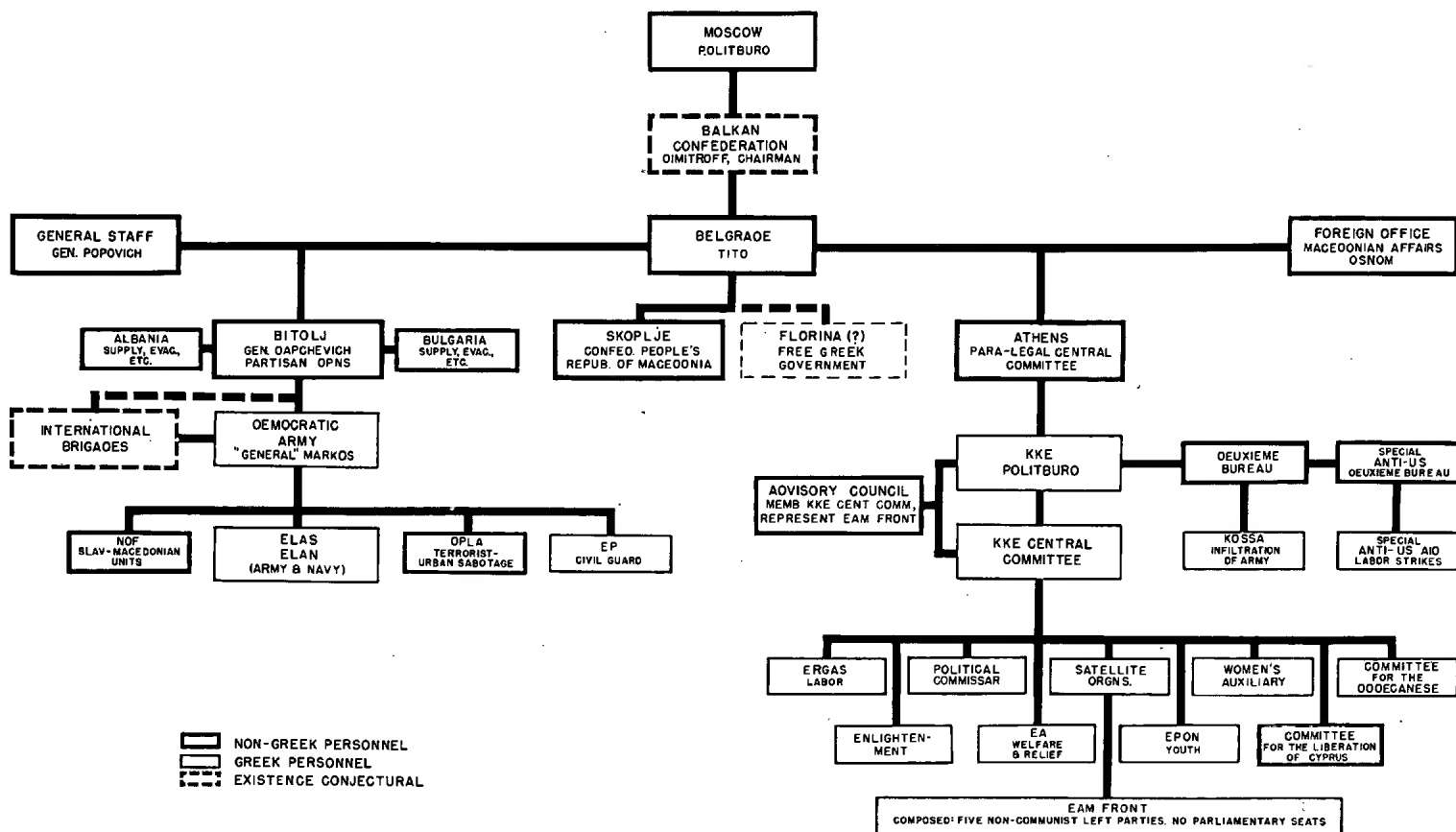
Because the opposition has associated Premier Dhamrong with most of the failures of his Government, Pridi may soon place General Adul in the premiership. As premier, Adul can be expected to institute reforms designed to mollify the opposition, particularly that in military circles. Adul may further utilize his influence in the Army and in police organizations to strengthen the political positions of Pridi, the Free Thai movement, and the Government coalition.

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GREEK COMMUNIST MOVEMENT CHAIN OF COMMAND



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TRENDS IN BRIEF

GENERAL

Czechoslovak cooperation with the US on air matters continues despite Czechoslovakia's political subservience to the USSR (see page 1).

Current Soviet propaganda directed against the Marshall proposals for European economic recovery emphasizes the "impending economic crisis in the USA," the need of the US for expanded foreign markets, and the serious rebuff to US political ambitions caused by non-participation of Eastern Europe in a Western bloc. Specifically, according to the Soviets, the Marshall proposals are designed to: (1) form a Western bloc directed "exclusively against the Soviet Union"; (2) make Germany--except the Soviet Zone--a "military base for American imperialism in the heart of Europe"; and (3) remove the Eastern European satellite states from the influence of Soviet foreign policy.

WESTERN EUROPE

The drastic retrenchment and controls announced by the UK in order to conserve its remaining dollar resources and to increase its production for export can, at the most, only delay the exhaustion of UK hard-currency reserves. Together with other measures, these new steps should alleviate the immediate financial crisis, but they will not make the UK solvent. These drastic measures postpone indefinitely the restoration of pre-war standards of living in the UK. It is possible that British public resentment of this postponement will find expression in some anti-US sentiment which will hamper a US-UK partnership in international affairs, particularly vis-a-vis the USSR.

The severity of the food situation in France, increased by the effect of this summer's drought upon the fall harvest, will force the French Government either to reduce further the bread ration or to deplete the dwindling gold reserves of the Bank of France through the purchase of food imports. If the present drought continues, the

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importation of all basic foods must increase on an unprecedented scale, but payment for these imports with Bank of France reserves would probably destroy all public confidence in the franc. These considerations would appear to make necessary interim aid for France pending the full development of the European recovery program.

Further arrests of dissident Portuguese Army and Navy officers are reported imminent. Despite the resentment within military circles over previous arrests of prominent officers by civil police (see Weekly Summary of 25 July, page 1), Premier Salazar apparently is still confident that he can take drastic measures to stamp out his opposition without dangerously alienating Army support. Little public reaction is anticipated.

NEAR EAST-AFRICA

The attitude of the Arab states will be the most important factor in determining the success of the regime to be established in Palestine by the UN. The UN's recommendation will probably follow one of three basic patterns: (1) a single, independent state; (2) trusteeship under the UN; and (3) partition into Arab and Jewish states. The first would be generally acceptable to the Arab states; the second would probably be acceptable provided it restricted Jewish immigration; the third would lead to serious instability in the Near East (including the possibility of an Arab revolt in Palestine) and would, in time, endanger US strategic and commercial interests in the area (see page 2).

Reports of increased Soviet troop concentrations along the Iranian border are believed to have been inspired by Iranian Chief of Staff Razmara in an effort to speed up the delivery of US military supplies to Iran. It is possible, however, that the Soviets are conducting troop movements in the area for the purpose of intimidating the Iranian Parliament into ratifying the oil proposals. There is no convincing evidence that the USSR is contemplating direct military action against Iran.

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FAR EAST

Burmese Communists renew efforts to obtain representation in the present Government (see page 7).

The French will shortly offer peace proposals to Ho Chi Minh in Indochina (see page 8).

Non-discrimination against foreign investors in China to be reaffirmed by the Chinese National Government (see page 9).

Hostilities will continue in Indonesia on a reduced scale with each side justifying violations of the UN cease-fire request of 1 August as "defensive operations." Conclusive steps toward settlement of the situation will be delayed by the difficulty of agreeing on the form of third-power action in the dispute. The Dutch may be expected to continue the formation of the interim federal government and the future United States of Indonesia. The Indonesian Republic, meanwhile, asserts that it is no longer bound by the Linggadjati Agreement and will endeavor to act with greater independence in its relations with sympathetic nations abroad.

WESTERN HEMISPHERE

The forthcoming Rio Conference is expected to reaffirm, in a form intended to be permanent, the principles of inter-American cooperation laid down in the Act of Chapultepec. Because of the substantial differences among the Republics on key issues, however, the treaty to be negotiated at the conference is not expected to provide for procedure other than general "consultation" or to impose specific measures for collective enforcement (see page 10).

The Brazilian Communists, in actively supporting the established form of government, may be seeking to keep a nucleus intact for espionage activities (see page 13).

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CZECHOSLOVAK COOPERATION WITH THE US IN AIR TRANSPORT

The markedly cooperative attitude of Czechoslovakia toward the West in air matters is noteworthy in view of its economic and political subservience to the USSR. The Communist-dominated Czechoslovak Government has permitted the US greater freedom in air transport operations than has any other European country. Czechoslovak military and civil authorities have facilitated the movement of US aircraft, frequently exercising only perfunctory control, and have occasionally permitted US crews and passengers to land even without passports and visas.

The USSR, having demonstrated its political control of Czechoslovakia, apparently has no interest in bringing pressure to modify this Czechoslovak present air policy. The USSR may even welcome the opportunity to use Czechoslovakia as an air outlet in view of the notable failure of the Satellite airlines to expand their operations westward. The Czechoslovaks, who are traditionally disposed to bridge the gap in East-West interests and ambitious to implement the US-Czechoslovak air agreement with a Czech trans-Atlantic service, will continue to foster US good will in aviation matters as long as they are permitted by the USSR to do so.

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ARAB REACTION TO POSSIBLE PALESTINE REGIMES

Because of the irreconcilable aspirations of Zionists and Arabs, no regime which the UN establishes in Palestine can settle the problem entirely. Any solution adopted will, of necessity, be a compromise, which may through gradual evolution and modification attain independent strength and relative stability. The most important factor in determining the success of such an evolution and the future stability of the Near East will be the attitude of the Arab states.

Although many solutions of the Palestine problem have been suggested, the regime to be established by the UN will probably follow one of three basic patterns, each of which is capable of many variations. The basic patterns are: (1) a single, independent state; (2) trusteeship under the UN; or (3) partition into Arab and Jewish states. It is possible to indicate in general terms only the probable Arab reaction to each of the foregoing possibilities and to estimate the type and extent of retaliatory measures which the Arabs might take in the event of an unacceptable decision. It is certain, however, that any solution which permits substantial Jewish immigration would be violently opposed and would cause an Arab revolt in Palestine. It might also lead to an economic boycott of the US and the UK and to a reorientation of Arab foreign policies toward the USSR.

The first possibility--a single, independent state--would be acceptable to all the Arab countries. Arab delegates at the Special Session of the UN General Assembly, Arab statesmen in their parliaments and in the councils of the Arab League, and the Arab press have been unanimous in demanding both termination of the British Mandate and attainment of independence. Although the Jews might be allowed considerable local autonomy, the Arab majority in the National Government would be in a position to restrict Jewish immigration and to control foreign policy. The Grand Mufti would have no reason to start an Arab revolt in Palestine; the only serious obstacle to cordial relations between the US and the Arab states would have been removed.

The second possibility--trusteeship under the UN--would probably be acceptable to all the Arab Governments provided the following conditions were included: (1) no further Jewish immigration except as provided for in an international agreement under which

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nations of the UN would accept displaced persons in proportion to their populations; (2) participation by both Arabs and Jews in the administration of the country in proportion to their numbers in Palestine; and (3) eventual independence and incorporation into the Arab League. (Certainly Iraq, and possibly Syria, might attempt to persuade the other states in the Arab League to maintain their original demands for independence. But Saudi Arabia, Lebanon, Egypt, and Transjordan would gladly accept an international administration and thereby avoid an open break with the Western Powers. For reasons of personal ambition, the Mufti might start an Arab revolt within Palestine, but such a revolt would not obtain general support unless the UN administration betrayed a pro-Zionist bias.)

The third possibility--the partition of Palestine into two independent states--would lead to serious consequences in the Near East. Although most of the Arab governments would be reluctant to act in opposition to a UN decision and against the wishes of both the US and the UK, the pressure of nationalist opinion might force them into an extreme position. An Arab uprising in Palestine would almost certainly ensue and would increase the pressure against moderation.

In the event of partition, Syria would give greater support to an Arab uprising in Palestine than would any of the other Arab states. Although the Syrian Government might shrink from openly sanctioning aid to the Palestine Arabs in opposition to a decision of the UN, it would unofficially permit the shipment of arms and ammunition to Palestine and would not prevent enthusiastic Syrians from joining the Mufti's forces.

Egypt's attitude toward partition would be similar to that of Syria. It might reluctantly agree to retaliatory measures against the US and the UK, but, in view of its past record, would refrain from implementing such measures if they injured Egypt's political or commercial interests. At the same time, nationalist groups would support the Mufti and would urge the Government to take extreme action in the Arab League against the Western Powers.

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The Iraqi Government during the past few months has been unequivocal in its demand for Palestinian independence. For this reason, although it may retreat to the extent of reluctantly accepting UN trusteeship, it would hardly accept partition. Iraq would insist that the Arab League invoke retaliatory measures against the US and the UK. As both King Ibn Saud of Saudi Arabia and President al-Khuri of Lebanon have indicated that they would not agree to such measures, and as King Abdullah of Transjordan is in no position to do so, the danger of a serious split in the Arab League would be very real.

Lebanon would like partition no better than any of the other Arab states, but unless a common Arab policy of opposition were adopted by the Arab League, it would not openly oppose partition. It would urge the Arab League (probably with the backing of Saudi Arabia) to follow a moderate course in regard to Palestine and to accept the decision of the UN. As in the other Arab states, however, a revolt in Palestine would result in increased sympathetic agitation in Lebanon and would make it all the more difficult for the Government to maintain a moderate position.

It is doubtful whether King Abdullah of Transjordan is able to follow an independent policy in relation to Palestine. As he is subsidized by the British Government, his opinion carries little weight among Arab nationalists. Although he may make resounding speeches about the rights of the Palestinian Arabs, no substantial support would go to Palestine from Transjordan without the sanction of the British-controlled Arab Legion.

Saudi Arabia, for the sake of maintaining the stability of the Near East, would try to persuade the members of the Arab League to accept partition as a temporary arrangement, and Ibn Saud would do his best to discourage an Arab revolt in Palestine. He is convinced that King Abdullah's plan for Greater Syria is more of a threat to the security of his kingdom and to the stability of the Near East than Zionism, and he is fearful lest a Palestine revolt should develop into a Greater Syria crusade.

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It is difficult to gauge accurately to what extent US interests would be affected by these possible developments in Palestine. Certain conclusions are, nevertheless, inescapable. If the UN recommends and establishes in Palestine a single, independent state, US prestige and influence in the Arab world will be extremely high and US interests will benefit almost immediately. Bilateral air agreements according Fifth Freedom privileges to US carriers (long pending with Iraq, Syria, and Saudi Arabia) would probably be rapidly concluded. A decrease in xenophobia would improve the position of US oil companies in the Arab states, whose governments, freed from the pressure of local hostility toward what are now considered pro-Zionist Americans, would not feel constrained to drive such hard bargains. US advisers, teachers, and technical experts would be employed in increased numbers; and the greater stability in the entire area would increase the possibility of the Arabs' carrying through, together with the US and the UK, long delayed and urgently needed economic development projects. Greater economic development and increased political maturity would strengthen immeasurably the Arab world as a bulwark against Soviet expansion. Such a development, however, cannot materialize without the aid of the Western Powers and, particularly, of the US; and the Arabs will not accept aid from countries that are committed to a Zionist policy. Consequently, a pro-Zionist US policy would make it all the more difficult to build the Arab states into a bastion against the USSR.

The immediate effects on US interests of a UN decision unfavorable to the Arabs would not be particularly serious. Occasional attacks on US nationals, haphazard destruction of parts of the pipelines, and vilification of the US by press and public might result, but it is very doubtful whether any concessions would be cancelled or an efficient boycott on imports from the US would be established. Several of the Arab states, Iraq particularly, would probably urge these measures in conformity with the decisions of the 1946 Bludan Conference, but lack of unanimity on the part of the Arab League members and their failure to implement the resolutions whole-heartedly, in opposition to commercial interests, would render the whole campaign innocuous.

In time, however, a pro-Zionist development in Palestine would seriously endanger US strategic and commercial interests.

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The greatest danger to these interests is instability in the Arab world, and instability is implicit in any settlement of the Palestine problem which fails to take account of Arab demands. The more unfavorable the settlement from the Arab point of view, the greater the unrest will be. Revolt in Palestine, disunity in the Arab League, and increased xenophobia would be symptoms of this unrest. Communist activity would increase and, with it, Soviet influence. The influence and prestige of the Western Powers would decrease proportionately. Western economic and strategic interests would be seriously endangered, and the Zionists would be no better off than they now are in Poland, Rumania, and the Ukraine. The Palestine issue is capable of changing the development of the Arab world from one of evolution in cooperation with the West, to one of revolution with the support of the USSR.

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TOP SECRET**NEW BURMESE COMMUNIST ACTIVITY**

Following a period of relative inactivity, Burmese Communists have pursued a new propaganda policy since the assassinations of Anti-Fascist League leaders on 19 July. The Communists seek to place responsibility for the assassinations upon conservative Burmese groups in league with the British and are endeavoring to build up anti-foreign sentiment throughout Burma.

In an effort to take advantage of the political inexperience of the new League leaders and obtain participation in the Government of Burma, Communist labor organizations have offered support to the new Anti-Fascist League Premier, Thakin Nu. The League is not likely at present to permit the admission of Communists to the Government in view of the League's continued control of 191 seats out of the total of 210 in the Constituent Assembly. If Thakin Nu's leadership proves inadequate, however, to cope with the problems of independence, moderate White Flag Communists may be readmitted to the Government (they were expelled from the Government and the League in October 1946) in order to deprive the more radical Red Flag Communists of political ammunition against the Anti-Fascist League's administration.

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FRENCH-VIETNAM POLITICAL MANEUVERS

Peace proposals will be presented shortly to Ho Chi Minh, President of the Vietnam Republic, by the French High Commissioner for Indochina, Emile Bollaert. The proposals will probably not be accepted, because the terms will include continuation of French control over Vietnam foreign affairs and reduction, or even disbanding, of the Vietnam Army.

If the proposals are rejected, the French may attempt to procure the re-entry of Bao Dai, former Emperor of Annam, into Indochinese politics. As head of a French-sponsored provisional constitutional monarchy, based upon the Annamite KMT and the local Catholic parties, the ex-Emperor would then be in a position to negotiate with Ho Chi Minh. This maneuver can be expected to fail because Bao Dai can probably neither muster sufficient popular backing nor treat successfully with Ho's administration. The Vietnam leaders consider Bao Dai both a traitor and a French puppet, similar to President Hoach of the provisional government of Cochin China. Furthermore, in an effort to forestall this maneuver, Ho Chi Minh will try to convince the French that the recent Vietnam cabinet reshuffle has resulted in a more moderate government with which the French may negotiate directly.

Regardless of these plans, the outcome of negotiations in Indochina will be conditioned by the action of the Security Council and the effectiveness of third-power intervention in the Dutch-Indonesian situation. If the final decision favors the Republic, Vietnam will be strengthened morally and will become more stubbornly opposed to France. Conversely, if the decision favors the Dutch, the French may be encouraged to resume military operations when the rainy season ends in late September.

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OUTLOOK FOR PRIVATE FOREIGN CAPITAL IN CHINA

The Chinese National Government has prepared a statement that affirms a policy of non-discrimination against foreign interests in China and invites US investments in all Chinese industry not reserved exclusively for Chinese capital. Foreign investors may, furthermore, participate in certain enterprises under Government monopoly (such as important railways, arsenals, essential mines, and hydro-electric plants). Remittance of profits out of China by foreign enterprises, while permitted in principle, will be restricted in practice during the "present period" of foreign exchange control.

Foreign investors will undoubtedly weigh this statement, which is similar to others issued in the past, against: (1) traditional Chinese antipathy toward foreign business and foreign investors; (2) obvious evidence of discrimination, in the execution of foreign exchange regulations, trade controls, and allocation of materials, in favor of enterprises controlled by the Government and by influential Chinese; and (3) the prospect of a long emergency period of economic and financial instability. Private foreign capital is unlikely, therefore, to act immediately on the National Government's "invitation." This hesitation will probably continue even after any extension of US Government credits to China.

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ISSUES BEFORE RIO CONFERENCE

With the Rio Conference only a week distant, the differences among the American Republics on key issues are still substantial and are unlikely to be resolved prior to the 15 August date of assembly.

The Pan American Union, in July 1947, submitted to the American Republics five questions on problems to be solved at the conference. The twenty-one replies (including one of doubtful status from Nicaragua's de facto government) indicate that:

(1) The Republics agree that the treaty to be negotiated at Rio should commit each signatory to assist the victim of any act of aggression.

(2) A majority of the countries are in favor of permitting each signatory to determine for itself the immediate steps it will take to assist the victim of aggression. (The US agrees in questioning the practicability of defining beforehand the character and timing of such steps. Bolivia and Brazil, however, dissent from the majority view on this point: Bolivia, on the grounds that the relevant measures should be determined by the Governing Board of the Pan American Union; Brazil, on the grounds that the relevant measures should be "coordinated" through consultation and then defined by the "common military organization" it would like to see created. There is, furthermore, even in the replies of the countries adopting the majority view, some sentiment in favor of prior planning as regards the nature and timing of the assistance to be provided.)

(3) Eighteen countries, including the US, favor abandonment of the unanimity practice in voting, and hold that collective measures should henceforth require the concurrence of two-thirds of the signatories. (Argentina would require unanimous agreement, while Uruguay would permit collective measures by vote of a simple majority of the signatories.) Since some of the eighteen countries listed as supporters of the two-thirds rule adopted that position more or less reluctantly, they may recede from it in the course of the conference.

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(4) Four countries -- the US, Brazil, Cuba, and Panama -- would make collective measures binding only upon those countries that have concurred in them; the majority of the countries would make the measures binding upon all signatories to the treaty. (A few countries would like to distinguish between coercive measures, which they would make binding only on the countries concurring, and all other measures, which they would make binding on all.)

(5) The majority of the countries, including the US, would postpone the creation of an inter-American military agency until January 1948, when the Bogota Conference is to convene; three countries -- Bolivia, the Dominican Republic, and Peru -- would like at least the general provisions for such an agency to be made at Rio.

Exchanges of views on the agenda and on the decisions to be reached at the Rio Conference began about two years ago, when the US and four other countries (Bolivia, Brazil, Chile, and Ecuador) submitted drafts for a treaty to implement Part II of the Act of Chapultepec. Mexico and Panama subsequently submitted suggestions based on the Brazilian draft. In the spring of 1946, the Pan American Union published an analysis and comparison of these documents. The analysis showed that the drafts differ principally in the extent to which they embody specific measures rather than general principles and the extent to which they assume that the exclusive purpose of the proposed Rio treaty is to make permanent certain temporary provisions of the Act of Chapultepec. The US draft, for instance, although it would permit decisions by a two-thirds vote and would make such decisions binding only on the countries concurring, is couched in general terms and adheres closely to the principles enunciated in the Act of Chapultepec; the Bolivian, Ecuadoran, and Uruguayan drafts, by contrast, embody specific proposals and enlarge in important particulars on the Chapultepec pattern. Some of these proposals would involve only marginal extensions of the principles of inter-American cooperation as these principles have operated in the past, especially during World War II. One guarantees transit rights to troops engaged in common action to resist aggression; another assigns certain new functions to the Pan American Union; another places certain problems under the jurisdiction of the International Court

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of Justice; another commits the American Republics to recognize no acquisition of territory by force; etc.

Other proposals, however, look to far-reaching modification of existing conceptions. One commits the American Republics to reciprocal guarantees of territorial frontiers; another envisages joint action against any violation, within the hemisphere, of the rights of man or of democratic principles; a third calls for a co-operative military agency empowered to direct common military action by the American Republics; another obligates the signatories, under certain circumstances, to provide troops for common military action; another provides for regulation of the manufacture and distribution of armaments within the hemisphere.

Argentina is reportedly about to submit its own draft-treaty proposal, which would bring the total number of such drafts to nine. Cuba, though it has not submitted a draft and is not expected to do so, has placed itself on record as convinced that the proposed treaty should address itself to certain economic problems which it regards as relevant to hemisphere solidarity. Still other proposals may be submitted before the conference convenes or may be brought forward in the course of its deliberations. Because, however, the conference is certain to make its decisions in accordance with the unanimity principle, and because each of these specific proposals is likely to elicit vigorous opposition from at least one of the Republics, the treaty probably will reaffirm, in a form intended to be permanent, the principle of cooperation laid down in previous conferences; will specify no required procedure other than general "consultations"; and will impose no specific measures for collective enforcement.

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COMMUNIST SUPPORT OF BRAZILIAN CONSTITUTION

Although the Brazilian Communist Party was declared illegal on 7 May 1947, it remains in existence and is actively supporting the established form of government in Brazil. This unexpected development in Communist policy suggests either that Brazilian Communists are violating Kremlin wishes (which is unlikely) or that the Kremlin itself has shifted its line in Latin America to favor front organizations as against political infiltration through party organization.

The new Communist policy, which parallels one reportedly agreed upon at a Party meeting in Montevideo in June 1947, includes: denial of any tie with the USSR; active support for the existing government of each country; and the maintenance of a functioning network of intellectual, cultural, or recreational front organizations, but with continued effort to penetrate existing political and labor groups.

The partial defeat of Soviet espionage in Canada in 1946 may cause the USSR to place increasing reliance on Communist-front organizations for clandestine operations in preference to the traditional Communist parties. The present pattern of Communist activity in Brazil may therefore indicate that the USSR expects soon to need espionage in Brazil more than it needs political tools. In line with this expectation, the Brazilian Communists will probably continue to attempt appeasement of the Brazilian Government in order to keep intact some kind of Communist nucleus as an alternative to an openly political organization.

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TRENDS IN BRIEF

GENERAL

US-Portuguese negotiations over Azores bases may be complicated by Portuguese desire for a US guarantee of territorial integrity (see page 1).

WESTERN EUROPE

Spanish-French trade may be resumed semi-secretly via Morocco and Portugal (see page 2).

The critical Italian food situation, which has been aggravated by the inadequacy of the 1947 grain harvest, constitutes a grave political threat to the De Gasperi Government. Efforts by the Government to meet the crisis through grain collections and re-distribution are meeting strong public opposition. Leftist groups are capitalizing upon this resentment in an effort to overthrow the present Government. De Gasperi considers that early large-scale imports of wheat are necessary in order to increase the pasta ration in September and to maintain that increase at least until the national elections scheduled for April 1948. The Italian Communist Party hopes that the USSR, in view of its good wheat prospects, will send wheat to Italy in an effort to bolster the Communists at the polls as was done by the USSR in the French elections of June 1946.

Sweden's Social Democratic Government is trying to shift to the US and UK the blame for the country's current difficulties, despite the fact that Sweden's \$280,000,000 five-year trade and credit arrangement with the USSR is causing serious dislocations in the Swedish economy. Social Democratic spokesmen charge that the US and UK are forcing Sweden to buy heavy imports of non-essentials for cash; actually, Sweden's foreign currency reserves are being used to obtain materials for production under the Soviet trade pact and deliveries are being made to the USSR on credit.

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The recent French offer to permit an increase in German steel production in exchange for US-UK support for internationalization of the Ruhr indicates that French officials have modified their attitude toward the German question. This shift may have been caused by French awareness of a strong undercurrent of opinion at the Paris conference favoring the inclusion of western Germany in the European recovery program.

EASTERN EUROPE

Despite Soviet veto of a permanent Balkan commission, certain positive results have been achieved by the UN investigation in Greece (see page 3).

NEAR EAST-AFRICA

The Anglo-Egyptian dispute, scheduled for a Security Council hearing on 5 August, may be settled in large measure "out of court." The fact that the influential Secretary-General of the Arab League, Azzam Pasha, has given tacit support to behind-the-scenes discussions strengthens the chance for successful renegotiations between Egyptian and British officials. With the exception of the Soviet representatives, who would like to embarrass Britain, UN delegates have generally felt that the Egyptian issue should not have been raised in the UN, which is already burdened with far more serious problems. If Egypt and the UK can compromise their differences on the outside, the SC will presumably recommend a solution which has already been tentatively agreed to by the two disputing parties.

The UK's recent injunction to King Abdullah of Transjordan to cease agitating for a Greater Syria is in accord with repeated US requests for such action. The UK probably hopes that this step will persuade the Saudi Arabian, Syrian, and Lebanese Governments--which oppose the Greater Syria scheme--to adopt a more cooperative attitude in the Anglo-Egyptian and Palestine disputes before the UN.

WESTERN HEMISPHERE

Anti-Peron sentiment in the Argentine Army seems to be increasing following recent changes in the Government (see page 4).

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Fighting in Paraguay has been intensified on all fronts, despite rumors of a negotiated peace in the civil war. The Morinigo Government's latest concerted actions apparently represent a final attempt to win a military victory before mediation proceedings can get under way. The President and Foreign Minister, when they learned that the rebels had accepted Brazil's mediation formula, hastily reconsidered their previous favorable decision and began to insist on conditions that would result in delaying mediation.

The opposition party in Costa Rica is leading a "civil disobedience strike" which already has forced all banks and many business establishments to close their doors; all but a skeleton force of employees have been pulled out of the country's major public utilities. Unless present vigorous efforts to reopen the banks succeed, the Government will face a grave situation as the country moves into its second pay-less weekend. Two years ago the Government of El Salvador was ousted by similar use of the "civil disobedience" general strike weapon.

Nicaragua will be excluded from the Rio Conference as a result of a 13-5 decision by the Governing Board of the Pan American Union. The Board agreed to reopen the matter if a government recognized by a majority of the American Republics should be established in Nicaragua prior to the end of the Conference.

Soviet and Polish efforts to persuade Argentina to be "difficult" about planning for Hemisphere defense appear to have failed. Instead, with the possible intention of modernizing its Army and Navy and remodeling them along US lines, Argentina has requested US Army charts and tables of organization.

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TOP SECRET**PORTUGUESE MISGIVINGS COMPLICATE AZORES NEGOTIATIONS**

While Portugal has not yet so indicated, its primary objective in the current negotiations for the continuation of US military rights in the Azores is probably a guarantee of Portuguese territorial integrity such as it unsuccessfully tried to obtain from the US last year. If this guarantee is not given, Portugal may be expected to continue its opposition to US military personnel in the Azores, but it will permit continued air transit rights.

Portugal's position reflects its convictions that: (1) an East-West war is both inevitable and imminent; (2) Portugal cannot again remain neutral; and (3) its centuries-old alliance with the UK no longer affords adequate protection. Portugal accordingly attaches great importance to a political commitment by the US. The only possible trump card, however, with which this objective may be won, would be the offer of military rights in the Azores (and possibly elsewhere) in return for such a firm political guarantee.

While Portugal needs US good will, Salazar's freedom of action is limited by the division within his own government over the question of a narrow or a broad basis of collaboration with the US. Moreover, in view of Portugal's traditional jealousy of its sovereignty over island and colonial possessions, Salazar cannot afford to arouse popular opposition by granting the US too much for too little.

In the face of a US refusal to make far-reaching political commitments, the Portuguese will be cautious about the nature of air rights given the US after the present agreement expires in December. They may be expected to cite the current US-Iceland agreement in support of their adamant stand against the presence of uniformed US troops and the US flag. Similarly, the Portuguese may demand clarification of the suggested phrase "US military aircraft serving the forces of occupation in Germany and Japan," in order to deny transit rights to US combat aircraft destined for use in any outright military operations.

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POSSIBLE RESUMPTION OF SPANISH-FRENCH TRADE

The Spanish Government is believed to be making arrangements with the French Government for semi-secret resumption of trade between the two countries via a circuitous route through Morocco and Portugal. This route may be intended to prevent the flow of contraband traffic across the Pyrenees to the anti-Franco underground forces within Spain and to conceal the existence of the trade as far as possible from French leftist groups, who would strongly protest such relations with Franco's Government.

In order to help the French Government counter eventual leftist attacks on trade with Franco, Spanish officials reportedly have furnished the French with the names of ships currently carrying Spanish goods destined for the USSR by way of Egypt and Iran. This report tends to confirm recent rumors that Spain and the USSR have arranged for some exchange of goods despite their official denunciations of each other.

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RESULTS OF SC CONSIDERATION OF GREEK CASE

Despite the blow to UN prestige given by the Soviet veto of a permanent Balkan border commission, the Security Council and the Investigation Commission have accomplished certain positive results. The Commission succeeded in proving that Satellite aid has been given the guerrillas and submitted a majority report to that effect, thus revealing it to the non-Soviet world. Furthermore, the Commission's disclosures resulted in the formulation of the Greek aid program and helped to crystallize public and congressional opinion in support of that program. World opinion will probably interpret the Soviet veto as a further indication of Satellite guilt.

It is probable that the USSR originally permitted the investigation in the belief that by the time any findings were submitted to the SC, the situation in Greece would have so deteriorated that corrective measures would no longer be possible and Greece would become another Balkan Satellite. The Soviet bloc on the Commission therefore pursued delaying tactics and sought to focus attention on Greek internal conditions. Eventually, however, this obstructionism served only to reveal the USSR's real intent in the matter.

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TOP SECRET**PERON'S POLITICAL AND ECONOMIC PROBLEMS**

Recent military and economic developments in Argentina suggest that Peron has not yet resolved the political problems which resulted from the removal of General Velazco as chief of the Buenos Aires police and the consequent alienation of numerous Nationalist supporters of his regime (see Weekly Summary of 15 July, page 8).

Anti-Peron sentiment appears to be increasing in the Argentine Army (the Navy has never been friendly to him). Resentment against Mrs. Peron's interference in political affairs has been intensified within the Army by her European tour and her continued intervention on behalf of such friends as Lagomarsino, the Minister of Industry and Commerce. Lagomarsino is a member of a group which includes Miguel Miranda (President of the National Economic Council) and which the Nationalist Army clique wishes to have removed from office on charges of graft. The Nationalist officer group is also resisting Peron's Hemisphere defense collaboration with the US and has made it plain to the President that it desires neither US training methods nor US equipment. A group of five generals reportedly has delivered an ultimatum demanding that Peron abandon cooperation with the US.

Former Police Chief Velazco, the major spokesman of the dissident Nationalist officers, has taken part in a number of political meetings since his dismissal. Although Velazco is reported to have promised Peron that he will not engage in revolutionary activities, he has refused to confer with the President since his removal. Velazco would enjoy the support of a considerable number of prominent officers in any action he might take against the Government.

Any revolt against Peron in the foreseeable future would probably be led by the Nationalist officer group. The disaffected officers are clearly watching political developments closely but are not yet ready to plan any early action. Apparently fearful of Nationalist attacks on his intimate associates, the President has taken certain precautionary measures. These measures include: (1) the collection of all available information on dissident Nationalists; (2) surveillance of Velazco; (3) close observation of labor unrest to prevent its exploitation by the Nationalists; (4) alerting military units for possible trouble;

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(5) steps toward isolating Nationalist leaders in remote Army posts; and (6) the dismissal of Peron's own military secretary, General Silva, apparently because of doubts regarding Silva's loyalty.

Certain recent developments in the economic field may also have grave implications for the Peron regime. The Government's ambitious price-control and anti-speculation campaign has met with increasing failure; small items of every-day use are increasingly scarce and gasoline, for instance, has risen 40% in price. Argentina's gold and foreign exchange position has steadily deteriorated; in the face of a desperate need for motor transport, the continuous loss of gold to the US has obliged the Government to suspend import licenses for motor vehicles (between the peak month of September 1946 and April 1947, Argentine gold and foreign exchange holdings declined 17%). Moreover, the Argentine stock market recently has been subject to violent fluctuations; after an unprecedented rise, industrials underwent a heavy selling wave in May and uncertainty and uneasiness still prevail, despite a considerable subsequent recovery.

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TRENDS IN BRIEF

GENERAL

The USSR is expected to postpone ratification of the Italian and Satellite treaties at least until September and perhaps indefinitely, in order to complete its control over Eastern Europe and to prolong unrest on the continent (page 1).

WESTERN EUROPE

French determination that Germany shall not again become powerful continues to complicate planning for European recovery (page 4).

The Soviet and Satellite trade proposals to Austria may establish the pattern of future economic relations between Eastern Europe and the West. These proposals show that the USSR and the Satellites intend to permit trade with the West only by agreements which offer commodities at prices considerably higher than in trade between the Satellites and the USSR. Payment by the West, furthermore, must be made in either US dollars or in commodities urgently needed in Eastern Europe. Austrian rejection of these proposals would be exploited by Soviet propaganda to demonstrate that Austria is subject to US domination at the expense of its own welfare.

With the formal arrest of the Portuguese Army and Navy officers who were forced to retire on 15 June, the Salazar opposition movement, never well organized, has lost its most influential leaders. Salazar would not have ordered the arrests without being confident of Army support; his action, however, indicates that even so he does not wish to risk dissident activity in his country under present international conditions.

EASTERN EUROPE

By capitalizing upon Hungary's political disintegration following the recent "coup," the Communist Party has split the Opposition into

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small, ineffective groups, thus assuring its control of the coming elections. Moreover, by extreme pressure, the Communists have virtually completed passage of a new electoral law which will provide for Communist-controlled elections within 60 days after enactment. This law, outrageous by Western democratic standards, legalizes extremes of electoral manipulation comparable to those which obtained in Bulgaria, Rumania, and Poland.

NEAR EAST-AFRICA

Persistent rumors of an impending military dictatorship in Iran oriented toward the USSR and headed by Ali Razmara, the ambitious Iranian Chief of Staff, are discounted by available evidence. Razmara has abandoned his earlier "blood and iron" policy toward Iran's anti-Communist tribes and now has adopted a conciliatory attitude, apparently in the hope of obtaining their support in the event of a Soviet attack. Moreover, Razmara has indicated that he favors retention of US Military Missions in Iran, despite continued Soviet pressure for their discontinuance.

FAR EAST

The strong position of the Burmese Anti-Fascist League has not been impaired by the recent assassinations of certain League leaders (page 5).

Dutch officials appear to be proceeding unilaterally with plans to form an interim federal government for the Netherlands East Indies while executing "limited police actions" (page 6).

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STRATEGY OF SOVIET DELAY IN TREATY RATIFICATION

Six months after the signing of the Italian and Satellite peace treaties, it appears likely that the USSR will postpone ratification at least until September and perhaps indefinitely. By delaying ratification of these treaties (all have been ratified by the US, UK, and France) the USSR hopes to facilitate consolidation of its control over Eastern Europe and to prolong unrest and uncertainty throughout the continent.

The Truman Doctrine and the Marshall proposals have forced the USSR to reconsider its position in regard to Hungary, Rumania, and Bulgaria. In the face of a passive Western policy, the Soviet Union might have considered its control in these countries sufficiently strong to permit early ratification of the treaties without jeopardizing its ultimate domination. The effect of US aid to Greece and Turkey, however, coupled with the Satellites' desire to share in the US program for Europe, has intensified Soviet determination to maintain its extraordinary powers of control over these countries, now exercised through domination of the Allied Control Commissions and the presence of occupation forces.

Although the Dimitrov regime in Bulgaria is sufficiently well-entrenched to stand on its own after the withdrawal of Soviet troops, the USSR has compelling reasons for not ratifying the Bulgarian treaty. Direct supervision of the stepped-up campaign in support of the Greek guerrillas would be more difficult after the withdrawal of Soviet troops which both aid in the war of nerves against Greece and Turkey and contribute logistic support to the guerrilla bands. The recent arrest of Petkov and the terrorist campaign against other Agrarian Party leaders indicate the advantages to the USSR of consolidating its control prior to ratification. Had these actions been taken after ratification, the Soviet Union and the Bulgarian Government would have had to answer to the UN for violations of the peace treaty provisions. In order to avoid foreign intervention, therefore, the USSR will probably delay ratification until all vestiges of opposition in Bulgaria are eliminated.

Conditions in Rumania also favor postponement of treaty ratification by the USSR. Despite nearly complete control over the Rumanian economy, the Soviet position in Rumania would be insecure after ratification so long as King Michael and Maniu, leader of the opposition National Peasant Party, remain as symbols of popular opposition to the Communist Government. The treaty will probably not be ratified,

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therefore, until Maniu and the National Peasant Party are eliminated from Rumanian politics, and until some means has been found to dispose of King Michael. The absence of any popular demonstration against the recent arrest of Maniu and many of his supporters may encourage the Communists to hasten their decision on Michael.

In Hungary, the USSR was confronted with a government distinctly pro-Western. The "coup" which resulted in Premier Nagy's resignation in June was the first step in a series of necessary preparations for ratification of the peace treaty. New "rigged" elections are expected by September. Even the holding of these elections does not, however, presage early ratification because post-election house cleaning will still be necessary in Hungary as it has been in Bulgaria and Rumania.

In addition to these political considerations, the USSR needs more time to consolidate its economic and military control over the Satellites. Partially in response to the European recovery program, the need has become more pressing to strengthen economic ties among the Satellites and the USSR. Imposition by the Soviet Union of the economic controls necessary to achieve this goal in the enemy states is far more practicable under existing conditions than it would be after ratification. Through the Allied Control Commissions and with the help of occupation troops, the USSR maintains an effective stranglehold on the internal economy of these countries and, by controlling their foreign trade, can block Western economic penetration. Meanwhile, the USSR is using its dominant position in the area to implement a network of military alliances through which Satellite armed forces will become no more than auxiliaries of the Soviet Army.

Although ratification of the Italian peace treaty would benefit the USSR by forcing the withdrawal of US-UK troops, thus giving Italian Communists a freer hand, other considerations militate against early ratification. By depriving Italy of independent status, the USSR prolongs the existing unrest and uncertainty in Italy and retards political and economic stability. (Italian Communists capitalize upon the unpopularity of the Italian treaty by pointing to the "quick" ratification by the US and UK as contrasted with Soviet "reluctance" to ratify.) Moreover, the USSR will continue to delay because it is not yet ready to implement the peace treaty provisions for the Free Territory of

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Trieste. There is little likelihood that a pro-Soviet governor will be appointed for Trieste. The USSR therefore prefers to retain the status quo in order to maintain conditions favorable to infiltration and eventual control by the Yugoslav Communists.

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FRENCH OPINION ON GERMAN PRODUCTION

French public opinion is united in the determination that a powerful Germany must never again rise. The French Communist Party has successfully adapted its propaganda line to this national feeling by arguing that the US means to revive German industry at the expense of France in the program for European economic recovery. The French steel interests, furthermore, may appeal to the public fear of Germany in a maneuver to eliminate Germany as a future commercial rival.

Foreign Minister Bidault's recent strong protest of the new US-UK level of industry agreement for the US-UK Zones Germany was based upon his conviction that if French views are ignored in the revision of German levels of production, French public opinion will turn violently against the plan for European recovery because it includes a resurgent Germany.

Bevin has made it clear that European recovery cannot succeed unless France participates. In order to participate and to achieve economic recovery, the French are willing to defer their demands for a federalized Germany and for the internationalization of the Ruhr; they will probably even consider a reduction in reparations. The French, moreover, are not categorically opposed to all upward revision of the level of German industry. They are firmly against increased steel production. French industrial planners point out that, with coke from the Ruhr and with the cooperation of Belgium and Luxembourg, the steel requirements of all Western Europe, including Germany, can be met by the French steel industry. Unless the French view and the US-UK view are reconciled, the present French Government probably cannot survive, and the European recovery program cannot succeed.

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THE ASSASSINATIONS IN BURMA

Events since the assassination of several important Anti-Fascist League leaders demonstrate the strong position of the League in Burmese politics. No attempt has been made by those responsible for the assassination to displace the League from its controlling position. On the contrary, the League recovered swiftly from its disaster and formed a new Executive Council headed by Thakin Nu. The UK Government will add support to Thakin Nu by announcing the agreement made during his recent mission to London which transfers greater powers to the Burmese Government and ensures early consideration by the UK Parliament of legislation for Burmese independence.

Although no positive identification of those responsible for the assassinations of Aung San and other League leaders has yet been made, considerable circumstantial evidence indicates some complicity on the part of U Saw, leader of the ultra-nationalist Myochit Party. Since the London Conference on Burmese independence in January 1947, U Saw has opposed the League's agreement with the UK and has advocated immediate independence. Because of the League's recent proposal to the UK Government for interim dominion status, U Saw may have believed that Aung San had "sold out" to the British. U Saw has frequently implied that Aung San was responsible for the assassination attempt made against him in September 1946. Unusually large stores of arms were discovered at U Saw's home. Also, a jeep found at U Saw's residence has been identified by a member of the Burmese Executive Council as the one which carried the assailants of Aung San to the scene of the assassination.

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DUTCH INTENTIONS IN THE NEI

Since the outbreak of fighting between Dutch and Indonesian forces on 21 July, Dutch officials reportedly have been establishing a Dutch administration for occupied Republican territory. Two Dutch civilian administrators are believed to have been appointed for North and South Sumatra and two pro-Dutch Indonesians for East and West Java. It is significant that no such administrator has been named for Central Java. This omission may indicate Dutch intention to limit the Republican Government to that area, separated from Republican areas in Sumatra by the Dutch-dominated territory in West Java. Nevertheless, top-level Dutch officials have denied any intention of destroying the Republic. They express the hope of "establishing a Republic" with which the Dutch can negotiate for the early development of a sovereign United States of Indonesia.

Other indications of unilateral action by the Dutch can be seen in the apparent formation of an interim federal government for the Netherlands East Indies. The formation of this interim government is suggested by reports of recent conferences in Batavia attended by the leaders of the pro-Dutch states of East Indonesia and West Borneo. Further evidence of the formation of this government is the appointment of several East Indonesians to federal posts. This action suggests that the Dutch intend to proceed with the implementation of the Linggadjati Agreement and the Dutch note of 27 May 1947 (as interpreted by the Dutch) in order to present the Republic with a fait accompli if negotiations are resumed.

Because of their claim that current operations are "limited police actions," the Dutch are in a position to break off hostilities, whenever convenient, on the ground that the objective of the "police" action has been achieved. General Spoor, Commander-in-Chief of the Netherlands Indies Army, has estimated that "police" operations in certain areas will be completed in two weeks. Spoor stated that conditions might then be suitable for implementing the Linggadjati Agreement "in a way which cannot be done now." (The Dutch Foreign Office has expressed a hope that former Premier Sjahrir will retain his moderate attitude. This may denote a desire to use him in future negotiations.)

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The Indonesian Republic meanwhile has appealed to all nations to bring its case before the UN. Both Republican Foreign Minister Salim and Sjahrir are now traveling in India and in Moslem countries of the Middle East in an effort to enlist support for the Republic.

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TRENDS IN BRIEF

WESTERN EUROPE

The Communists in Italy are using every means short of insurrection to oust De Gasperi and return to power (page 1).

The USSR may now abandon restraint in eastern Austria and assume outright economic control (page 1).

Both the North African Nationalists and the French can be expected to exercise mutual restraint in order not to prejudice UN consideration of the Moroccan appeal for independence. A representative of the North African National Bloc has announced that such an appeal will be presented to the General Assembly in September. Meanwhile, the French will presumably push reforms in all their North African territories, and the Nationalists, while attacking French motives and the inadequacies of the reforms, will seek to curb their extremists and to prevent disorders.

EASTERN EUROPE

Further guerrilla attacks upon Greece are expected from Albania and Yugoslavia (page 3).

Desertions of Soviet military personnel in Austria have markedly increased since early May. MVD detachments charged with the prevention of further desertions are being assigned to the Soviet units that are to be transferred out of Austria in the near future. The high rate of Soviet desertions in Austria, considerably greater than in Germany, is largely attributable to the fact that deserters are not returned as they are in Germany (within seven days after capture) under the Berlin-ACC agreement.

The US has objected to the UK-Yugoslav air discussions on the grounds that the course of the discussions has revealed that the Yugoslavs are clearly determined to exclude US airlines from Yugoslavia. In the interest of US-UK solidarity, the British have deferred to the US and have suspended the negotiations. Meanwhile, faced with the embarrassment of explaining their changed position, the British have drafted

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a note to the Yugoslavs which practically admits that US protests are responsible for their reversal. The note makes clear that Yugoslavia will now be forced to negotiate directly with the US for a US-Yugoslav air agreement or face certain US denial of the necessary zonal overflight permissions for its projected Belgrade-London route.

Substantial gains in Soviet industry and trade, moderate advances in transportation, and poor progress in construction are indicated by figures recently released on Soviet economic progress for the second quarter of 1947. Progress on the fulfillment of the Soviet State Plan appears to be considerably better than during the previous fifteen months, and only four ministries out of thirty failed to fulfill their second quarter quota. Sixteen had failed to do so during the first quarter of 1947.

NEAR EAST-AFRICA

Afghan interest in North West Frontier tribesmen is considered a political maneuver but not a threat to peace in the area (page 4).

Separation of the Turkish presidency from party leadership, as decided by the Republican (Government) Party, is expected to cause the eventual resignation of President Inonu as leader of Turkey's oldest and strongest party. His resignation would represent the first major achievement of the opposition Democratic Party (which for some time has sought to raise the presidency above party politics) since the inauguration by Inonu of Turkey's multi-party system in 1945. At the same time, however, such an action would also be to Inonu's advantage: by disassociating himself from party politics, he would become more than ever the "National Chief" and might well retain the presidency even if the Democrats should defeat the Republicans in a future national election.

FAR EAST

The negotiations of the Korean Joint Commission, now deadlocked, are expected to break down (page 5).

Major Dutch-Indonesian differences continue to block formation of an interim federal government (page 6).

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The Chinese Communists are exploiting the mounting unrest in Taiwan (page 7).

The UK economic position in Siam will be greatly improved by the concessions which Siam has made in order to obtain a certificate of sterling convertibility from the Bank of England. The British Financial Adviser to the Siamese Government (who is also a director of the Bank of England) has maintained that such a certificate can be given only to a "responsible" bank; he has declared that the Bank of Siam could not qualify as "responsible" unless a British comptroller were appointed. Both the Financial Adviser and the new British Comptroller are opposed to any commercial activities in Siam which are not in some way connected with British interests. They may therefore be expected to favor the UK-owned Shell Oil Company over the Standard Vacuum Oil Company.

Further border conflict in China's Sinkiang Province is expected, but large military operations are unlikely before the occurrence of a general Sino-Soviet breakdown. Although Soviet military equipment--including an anti-tank rifle, machine guns, grenades, and first-aid kits--has been captured from the Outer Mongolians, no evidence exists that Soviet personnel were directing the Mongolian operations. The Kazak chieftain commanding local Chinese forces claims, however, that Kazak units in league with Outer Mongolians were furnished military supplies by a Soviet mineral expedition that has been exploring the area north of Peltashan since May 1946.

Although many leaders of the Burmese Anti-Fascist League favor interim dominion status for Burma within the British Commonwealth, the League has heretofore laid such stress upon the issue of independence that modification of this demand would only furnish political capital to the Communist Party opposition. The UK Government has rejected the proposal for short-term dominion status which a Burmese good-will mission brought to London and has announced its intention to expedite legislation granting Burma independence as soon as the Burmese Constitution is completed.

WESTERN HEMISPHERE

Peron is expected to gain in political force by recent changes in his administration (page 8).

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TOP SECRET**WESTERN EUROPE****De Gasperi's Position Since the Paris Conference**

During the uncertain interval before the projected European economic recovery program can bear results, the De Gasperi Government is being assailed in an eleventh-hour attack by the Communists who are using every means short of insurrection to force the fall of De Gasperi and to facilitate their own return to power. Communist-leader Togliatti, recognizing that the Communist Party in Italy may be eclipsed in the event of national economic recovery through the European program, has decided upon an all-out war of nerves in an effort to re-enter the Government before it is too late. The De Gasperi Government is probably not sufficiently stable to survive until benefits are realized from a general European recovery and must have enough interim aid to demonstrate economic improvement to the electorate before the national elections of March 1948. If such interim aid cannot be obtained, competent observers agree that a leftist victory in the March elections is extremely probable.

Proposals for a new transfer of US surplus goods in Italy are under discussion, and moral support is being given to the De Gasperi Government by the Western Powers. The unpopular issue of Treaty ratification has been dropped by the Government for the present. However, as long as the USSR delays ratification, the Communists can continue to identify themselves as "patriots" with the great majority of Italians by denouncing the Treaty as a "shameful diktat." In a further effort to improve his position, De Gasperi intends to include the right-wing Socialists in his Cabinet in order to meet Communist charges that the Government has no working-class representation.

Possible Moves by the USSR in Austria

The USSR has been restrained from assuming outright economic control of eastern Austria by considerations of Austrian sovereignty. Recent developments -- the Soviet protests against the US-Austrian Relief Agreement and Soviet disapproval of Austrian participation in the Paris conference on European recovery -- indicate, however, that the USSR may now forego this restraint and attempt to dominate the economy of eastern Austria. Moreover, the USSR may seek to deny Austria immediate benefits

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from the US Relief Agreement as well as eventual benefits from the European recovery program.

Concerning the US-Austrian Relief Agreement, the Soviet Commander in Austria has protested to the Allied Commission and to the Austrian Government that Austria's sovereignty is violated by those provisions of the agreement which call for strict US supervision of relief distribution. Because the USSR fears extension of US economic influence, it may --in an attempt to force Austria and the US to abandon the relief program -- block implementation of the agreement in the Soviet Zone of Austria.

Such a step might cut off eastern Austria from US relief and would drastically reduce the effectiveness of Austrian participation in European recovery. Soviet occupation authorities, moreover, can be expected to make other efforts to disrupt the Austrian economy. These may include: (1) restrictions on commodity movements between the Soviet Zone and the rest of Austria; (2) continued delaying tactics on the Treaty negotiations; (3) greater discrimination in favor of Soviet-seized industries; and (4) isolation of Austria's economy from that of the Soviet Satellites.

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EASTERN EUROPE

Greater Satellite Aid to Greek Guerrillas Probable

Further guerrilla attacks from Albania and Yugoslavia may be expected, although the Greek National Army has halted the first heavy advances in the Konitza-Yannina area near the Albanian border. It is expected that --following the East-West break over the Marshall proposals -- the Satellite countries will intensify their clandestine assistance to the guerrillas in the form of materiel and perhaps of combat personnel. Moreover, the publication of the Greek guerrilla commander's charges that British and American nationals have assisted the Greek "monarcho-fascists" in the conflict is probably intended to justify active participation of international units on the side of the guerrillas in the future.

The USSR may decide not to veto the recommendations of the Balkan Investigation Commission in the Security Council (UN delegates now consider the chances of a veto to be even), but it will undoubtedly be able to delay effective application of the recommendations. If the SC thus fails to end the strife in northern Greece, the Satellite-supported guerrillas will launch intensified attacks which the weary Greek Army would be unable to contain.

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NEAR EAST-AFRICA

Afghan Interest in North West Frontier

The interest evidenced by the Afghan Government in the future of the North West Frontier tribesmen and in the possible creation of an independent Pathan state out of India's North West Frontier Province is considered to be a political maneuver which constitutes no immediate threat to the peace of northwest India. The Government, it is believed, is motivated by little more than a desire to appear as the friend and protector of the border tribesmen, of whom as many reside in Afghanistan as in India, and whose support is of great value to the Kabul Government. A potentially dangerous aspect of the situation is the possibility that irrendentist sentiments now prevalent among the tribesmen may in the future (particularly if the Pakistan Government shows military weakness) result in extensive depredations to the south which could throw Pakistan into general disorder.

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FAR EAST

Stalemate in US-USSR Joint Commission for Korea

The US-USSR Joint Commission for Korea, which has been in session since 20 May 1947, is now deadlocked, and an eventual breakdown in negotiations is considered likely. The key issue, upon which the Soviet delegates have stubbornly refused to yield, is the selection of political groups to be consulted in the formation of a Korean Provisional Government. (This same issue disrupted Joint Commission proceedings in May 1946.)

In the current negotiations, the USSR has extended every effort, with repeated and uncompromising insistence upon a narrow implementation of previous agreements, to eliminate rightist parties and social organizations from consultation. This is convincing evidence that the USSR is amenable only to an agreement that would insure the ultimate establishment of a Communist-controlled Korean Government. The USSR may, in fact, be continuing to negotiate only in the hope that time will render the US position in Korea increasingly embarrassing and that delay may discourage US congressional action on a grant-in-aid program for South Korea.

Soviet intransigence on the question of party representation has placed the US delegation in an extremely difficult position. If the US were to agree to the formation of a Korean consultative body that excluded right-wing political parties and social organizations, the US would then face the alternatives of: (1) permitting the establishment of a Korean Government that would, in effect, be a Soviet puppet; or (2) refusing to accept the recommendations of a consultative body that the US itself had helped to create. The dilemma of US delegates is increased by the sympathy of the rightist groups with Rhee Syngman, who is now fanatically denouncing the Joint Commission, trusteeship, and US Military Government policies as representing anti-Korean appeasement of the USSR. If Dr. Rhee and his close associates succeed in inciting the rightist parties to active opposition to trusteeship and other provisions of the Moscow Decision, the US could adhere to its prior commitments in the Joint Commission only by agreeing to the exclusion of such parties from consultation.

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Deadlock in Dutch-Indonesian Negotiations

The outstanding issues between the Dutch and the Indonesian Republic--the establishment of a joint gendarmerie, the reduction of Dutch military forces, and the subordination of the Republic's foreign relations to Netherlands sovereignty--continue to obstruct the formation of an interim federal government for Indonesia in accord with the Dutch note of 27 May. The Netherlands Government insists that its note must be accepted and implemented as a whole.

Concerning the joint gendarmerie, the Dutch justify their adamant position on the grounds that the Netherlands Government bears ultimate responsibility for the Indies through the acknowledged de jure authority of the representative of the Crown in the interim federal government. The Dutch, therefore, must possess the means to enforce order. The Indonesian Republic maintains that its de facto authority over Java, Madoera, and Sumatra (recognized by the Dutch in the Linggadjati Agreement of 25 March 1947) gives the Republic sole responsibility for order within its borders. The presence of Dutch elements of the proposed gendarmerie in Republican territory would impugn that de facto authority.

The deadlock over the reduction of Dutch military forces in the Indies cannot be broken until the Dutch are satisfied that reoccupation of foreign-owned estates can be carried out with full police security. This issue is thus closely tied to that of the joint gendarmerie.

The Republic agreed on 8 July to the stipulation in the Dutch note of 27 May that the foreign relations of Indonesia be handled by a federal council under the Far Eastern office of the Netherlands Foreign Ministry. Nevertheless, the Republic's Foreign Minister continues his efforts abroad to gain recognition of the Indonesian Republic from sympathetic Moslem countries, and has already obtained treaties of friendship with Egypt, Lebanon, and Syria. The Republic will be unwilling to comply with the Netherlands Prime Minister's recent demand that these treaties be abrogated because this would impair Republican prestige in the Moslem world and sever relations which would be valuable in the event of hostilities.

Because of the vital importance of these issues to both sides, agreement will be difficult to reach and implementation tardy. Meanwhile, the Netherlands Minister for Overseas Territories has declared that the

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Netherlands Government "is prepared, if compelled, to make use of extreme means" to bring about a solution. Recent military clashes along the Dutch-Indonesian perimeters, indicating the tension which again exists on both sides, provide constant opportunity for the Dutch to launch limited military operations in order to "restore order."

Further Unrest in Taiwan

The growing unrest in Taiwan may be seriously intensified if that island is used as the base for training a division of Chinese Nationalist combat troops as currently proposed. Native Taiwanese, who had adopted a "wait and see" attitude following the removal of Governor General Chen Yi, are now becoming increasingly critical of the existing Nationalist regime and are particularly sensitive to the presence of Nationalist troops in the area. Military repression and terroristic secret police activities continue, and the impression is spreading in Taiwan that Wei Tao-ming's Government is either powerless or unwilling to control the military element. Many Taiwanese, consequently, are becoming willing listeners to Chinese Communist agents reliably reported to be active on the island. (The arrival of several Soviet "businessmen" has also been reported.) Many other Taiwanese, who now advocate the transfer of Taiwan to US or international control, can be expected to shift their sympathies to the Communist cause if their present hopes show no signs of realization.

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WESTERN HEMISPHERE

Realignment in Peron Government

President Peron will probably gain in political force as a consequence of recent changes within his administration. The dismissal several weeks ago of Velazco, the Buenos Aires police chief, removed from the government the spokesman for certain elements which are bitterly anti-US and strongly opposed to the major emphases of the Peronista economic program.

From the standpoint of his economic program, therefore, Peron would no doubt have liked to remove Velazco at an earlier time. To have done so, however, before the US had declared itself satisfied with Argentina's compliance with Chapultepec commitments, might have proved costly: Peron's Five-Year Industrialization Plan (the fullest expression of the economic ideas to which Velazco takes exception) depends for success upon imports of heavy equipment from the US, on which Peron could not yet count. Once this uncertainty was removed, however, Peron found himself in a much stronger position vis-a-vis Velazco, whose removal would be interpreted at home and abroad as a friendly gesture towards the US and would, at the same time, serve notice that the time for doubts and hesitations regarding the Five-Year Plan has passed.

Peron will inevitably lose some political support as a result of this unequivocal commitment to a planned and managed economy; but he will also gain political support as a result of his rapprochement to the US. If, as Peron clearly expects, the gains balance the losses, he will have shaken out the reluctant elements in his support and will still have behind him a winning combination of Argentina's economic and social groups.

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TRENDS IN BRIEF

GENERAL

The UK Government is now mildly confident that it can re-establish convertibility of its sterling balances without serious shock to its financial position (page 1).

WESTERN EUROPE

A serious transportation crisis may develop in western Germany by the end of summer (page 3).

The Ramadier Government has been strengthened by the Soviet refusal to participate in the European recovery program (page 3).

The French Communists have adopted a strong isolationist and nationalist line in the response to a French foreign policy oriented to the West. They have proclaimed themselves the only truly national party devoted to guarding French national sovereignty against "Trumanism" and the "trusts," and have again raised the specter of a new German threat. France will be obliged to accept some measure of reconstruction for Germany in order to effect the economic recovery of Europe; the Communist charge that Germany is being strengthened at France's expense, therefore, is calculated to appeal to the traditional French fear of Germany.

EASTERN EUROPE

The Bulgarian Government is attempting to set up a "loyal Opposition" to replace the legitimate Opposition (page 4).

Greek political instability has been increased by recent activities of the Right and the Left (page 4).

The Rumanian Communists, possibly anticipating future foreign relief shipments, have begun a concerted drive to obtain control of the hitherto-independent Rumanian Red Cross. The Communists failed in a semi-legal attempt to pack the organization's annual meeting by demanding membership for 500 Communists and thereupon forcibly broke up the

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meeting. Party control of the Red Cross--which appears likely in the near future--would eliminate the principal remaining Rumanian agency that distributes relief supplies on a non-political basis.

NEAR EAST-AFRICA

Although Iran is expected to refuse to act on the long-pending Soviet oil demands, the USSR will probably not take overt action in the near future (page 6).

FAR EAST

The possibility of continued Dutch-Indonesian disagreement has not been removed by the Republic's announced willingness to proceed with implementing the Linggadjati accord (page 7).

WESTERN HEMISPHERE

The Argentine Minister of War has made statements which indicate that his country may be preparing either to wreck the arms-standardization program or to demand that the US foot the entire bill (page 8).

The Morinigo Government in Paraguay continues to insist that Uruguay has violated its inter-American commitments by assisting two rebel gunboats now anchored in the Plata River. Morinigo apparently does not intend to sever relations with Uruguay and is raising the question in order to forestall a possible Uruguayan move to prevent his Government's representing Paraguay at the Rio Conference--or to exclude Paraguay from the benefits of the conference. While Uruguay is the only country which is likely to take the lead in challenging the Morinigo Government's title to represent Paraguay, other republics --Chile, Venezuela, and Mexico, for example--might support such a move. Morinigo therefore has good reason to press to the limit any temporary moral advantage he may have over Uruguay as a result of the gunboat incident.

TOP SECRET**GENERAL****Convertibility of the UK Sterling Balances**

The British Government, which has viewed with apprehension the approach of its 15 July deadline for making sterling receipts from current transactions freely convertible into hard currency, is now mildly confident that it can re-establish convertibility without undue shock to its financial condition.

Free convertibility, to which Britain committed itself in the Anglo-American Financial Agreement, is a first step toward the full restoration of the pound sterling as an international currency. While it is too early to make an accurate estimate of its costs (in terms of additional foreign exchange that must be made available for payments abroad), they will probably range, during 1947, between 50 and 100 million pounds. Many competent observers believe that the added burden, while admittedly heavy, should not prove excessive.

The immediate situation as regards convertibility extends mainly to receipts from current transactions and not to the entirety of the blocked sterling balances held by Britain's creditors. These balances, which aggregate at present roughly 3500 million pounds, are involved in the 15 July deadline only in the sense that Britain, under the terms of the Anglo-American Financial Agreement, was to have completed by that time negotiations concerning their ultimate disposition. They are held, in large part, by countries within the so-called "sterling area," and the British view is that the debts were incurred for a war effort from which the creditors received substantial benefits, and that Britain should therefore not be expected to repay them in full. Some of the creditor nations (Argentina, Belgium, Portugal, and the Netherlands) have demonstrated a willingness to adopt this approach to the problem. But India, with 1200 million pounds of sterling balances, and Egypt, with 400 million pounds, are demanding full payment.

The reason for the British Government's new confidence appears to be that the negotiations with some of its creditors have resulted in reasonably satisfactory agreements. Britain's usual procedure in these negotiations has been to offer to release about $2\frac{1}{2}\%$ of the balances each year for four years, and to request postponement of the negotiations

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regarding the remainder until a later date. (If negotiations were completed on this basis with all Britain's creditors holding such balances, the resultant out-payments would amount to some 87.5 million pounds per year.) India has proved the major recalcitrant, so that negotiations regarding the Indian balances are likely to continue beyond the 15 July deadline. This would presumably oblige Britain to request of the US an extension in time.

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TOP SECRET**WESTERN EUROPE****Transportation Problems in Western Germany**

The railway system in the US-UK Zones Germany has so greatly deteriorated that a transportation crisis with grave consequences to the occupation may occur by the end of summer. Present German production levels as set by the Quadripartite Agreement not only prevent the manufacture of locomotives but also have caused such shortages in iron and steel as to bring about a drastic decline in the amount of rolling stock repaired. Although the projected program for European economic recovery will probably be based to some degree on a revision of the production levels in order to overcome the current difficulties of the bi-zonal railway net, the crisis which is threatened will probably arise before the program can become effective and may, indeed, be a considerable obstacle to the success of the program itself. The crisis, furthermore, will have an immediate effect on the distribution of food supplies and may result in mass unrest and food demonstrations worse than those of last winter.

Ramadier's Position After the Paris Talks

Molotov's refusal to participate in the program for European economic recovery has caused influential left-wing French Socialists to abandon their previous policy of cooperation with the Communists. This development has strengthened the Government and may provide Ramadier with a breathing spell until the municipal elections of October.

The Socialist National Council has unanimously supported the government's stand on the Marshall proposal and has thus excluded consideration of Communist participation in the government. The Council's vote of confidence in Ramadier was close, however, because many delegates were reluctant, in anticipation of the October elections, to go on record as supporting his relatively "bourgeois" economic policies. The differences within the Socialist Party on economic practice may cause Ramadier some difficulty in the future. Recent events, however, seem to have generated a fresh spirit of cooperation between the Parties in the government. The Communists are opposed by a non-Communist majority in the Assembly; and during the early negotiations for the European economic recovery program, the government may be expected to maintain a degree of stability.

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TOP SECRET**EASTERN EUROPE****Communist "Opposition" in Bulgaria**

The Communist-controlled Bulgarian Government is attempting to establish a "loyal Opposition" with the intention of displacing the present Opposition while still maintaining an appearance of representative government. The Communists further hope to destroy the real Opposition before the Peace Treaty goes into effect and thus present the Western Powers with an irrevocable "fait accompli." The Communists have thus far relied mainly on a war of nerves designed to scare Opposition members into either joining the "loyal Opposition" or retiring from public life. Two of the 23 Opposition deputies expelled from the National Assembly have been arrested. There are indications that many leading Agrarians, now very discouraged, are willing to accept the government's terms with one exception; they will not denounce Petkov who is still held incommunicado, despite Dimitrov's assurances that he would receive a quick trial.

Implications of Greek Arrests

Following a political and military stalemate of several weeks, recent activities by both the Right and the Left once more threaten the existence of the present Greek Government.

On 27 June the Greek Communist Party made what appears to have been a tactical error by announcing (at Strasbourg, France) its intention of setting up a "democratic" government in northern Greece. The Liberals, shocked by the anti-national implications of this announcement, condemned the Communists and opened fresh negotiations with Centrist democratic leaders. The Centrists, in a momentary display of vigor and solidarity, joined with the Liberals in discussing the possibility of a constitutional overthrow of the present extreme Rightist Government while continuing to oppose any compromise with the Communists. At the same time, a leading member of the EAM coalition (which acts as front for the Communist Party) approached Liberal and Centrist leaders and stated that many Greek rebels would be willing in this national crisis to lay down their arms if a government in which they had confidence could be formed.

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For a few days it appeared that the real issue in Greece-- that of international Communism vs. non-Communism--would be made clear to the Greek people. Then, on 9 July, the government initiated a program of mass arrests of the opposition. While this action has undoubtedly frustrated a Communist coup, the large number of prisoners taken indicates that many non-Communists have been arrested merely because they are opposed to the present government. (The Greek Government has reported that from 2,000 to 3,000 arrests have been made, but confidential sources indicate the figure is nearer 9,000 and is expected to reach 15,000 within a few days.)

For this reason, the arrests are expected ultimately to result in increased political bitterness and dissension and a re-clouding of the basic issue. Moreover, the briefly revived Centrists will be rendered ineffective again by their fear of the Communists and their dislike of the Populists. With the financial condition of Greece worse than ever before, the cost of living still rising, and morale dropping because of delay in US aid, the stage is set for a program of strikes, sabotage, and violence on a scale larger than any experienced so far.

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NEAR EAST-AFRICA

Iran's Dilemma over Soviet Oil Proposal

Iran faces a difficult and immediate problem in the matter of the Soviet proposal to establish a joint Soviet-Iranian company for exploiting the oil resources in Iran's northern provinces.

In an effort to obtain the removal of Soviet troops from northern Iran, Prime Minister Qavam assured the Soviet Ambassador in April 1946 that the proposal would be presented within seven months to Parliament, for which new elections would have to be held. Believing that the real purpose of the Soviet proposal was not to obtain oil but to gain control of the northern provinces, Qavam first delayed calling for elections until October, then sought to defer their completion, and finally procrastinated in convening Parliament, although a sufficient number of deputies had been elected to authorize its meeting.

The date for convening the Parliament has now been set for 17 July. As no further delay is feasible, Qavam faces the awkward alternatives: (1) of presenting the Soviet demands to Parliament, which would almost surely reject them, or (2) of taking no action, thus leaving the next move to the USSR. The Prime Minister has indicated that he will follow the latter course. Either course of action would be very unsatisfactory to the USSR. While it is believed that the USSR will not take any drastic overt steps at this time, it may be expected to bring great pressure upon the Iranian Government to accede to Soviet demands. At the same time, it will make every effort to achieve covert political penetration of northern Iran and to replace the Central Government at Tehran by one more friendly to the USSR.

Although the Iranian Government will endeavor to resist these efforts, internal dissension may weaken its ability to do so. The Shah, backed by his military clique, is determined to bring about the Prime Minister's dismissal as soon as the Soviet oil proposal is disposed of. Should the military gain greater ascendancy in the government, widespread dissatisfaction (particularly among the tribes) would lead to serious internal instability that would provide the USSR with further opportunities for intervention in Iranian affairs.

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Prospects for Dutch-Indonesian Harmony

The Indonesian Republic's announced willingness to begin the implementation of the Linggadjati Agreement returns the status of Dutch-Indonesian negotiations to that of 25 March 1947 when the Linggadjati Agreement was signed. As in the period which followed, both sides can now be expected to differ widely in interpreting their respective responsibilities for implementation. Undoubtedly each side will expect an immediate expression of good faith from the other. Dutch authorities have indicated that they expect the Republic to put an end to acts of terrorism in their territory and to lift the food blockade. On the other hand, the Republic desires immediate reduction of Dutch forces.

The conciliatory position of the Indonesian Cabinet appears to have been adopted as a temporary expedient, partly in response to US representations. The possibility of future disagreement with the Dutch is increased by the facts that: (1) the new Premier, Amir Sjarifoedden, is considerably more leftist and anti-Dutch than his predecessor, Sjahrir; and (2) the Cabinet has a larger labor representation which may prove intransigent on economic issues.

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WESTERN HEMISPHERE

Argentine Maneuver on Arms Standardization

The Argentine Minister of War has stated that Argentina, while supporting the Hemisphere arms-standardization program, should insist upon: (1) retaining its freedom to manufacture war materiel within its own frontiers; and (2) the use of existing armaments in each of the American Republics as the "basis" for the projected standardization.

None of the American Republics is likely to take exception -- either at the Rio Conference or in the course of any subsequent negotiations -- to Argentina's manufacturing arms; to do so would be tantamount to demanding that Argentina jettison a considerable part of its ambitious Five-Year Plan. Objections probably will be raised to the second point because the implied basis for standardization would evidently defeat the central purpose of the US-sponsored program. Moreover, the delegates on the Inter-American Defense Board (upon which Argentina was represented throughout the period when the standardization program was taking shape) have always understood that US armament types were to be used as the basis for standardization. Prior to World War II, the Latin American Republics purchased arms from several European countries, with the result that their "existing armaments" represent a wide diversity of types. Furthermore, Argentina now has on order from European firms more than \$150,000,000 worth of armaments that would presumably be difficult to fit into a Hemisphere standardization plan. Argentina might assert its prerogatives under the cherished Argentine doctrine of equality among states and take the position that uniformity in accordance with Argentine standards makes as much sense as uniformity in accordance with US standards. Its purpose in doing so would be either to prevent the standardization program from being carried out, or, more likely, to prepare the way for a demand that the US foot the bill for the entire program.

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SPECIAL ARTICLES

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TOP SECRET**SOVIET OPPOSITION TO THE RECOVERY PROGRAM**

Soviet opposition to a European reconstruction program will be demonstrated at the Paris Conference of 12 July by the absence of delegates from the USSR and its Satellites, including Czechoslovakia. Less direct indications of Soviet opposition will be seen in the future in Communist interference within the participant countries and in vigorous propaganda emanating from Moscow. British support of the program, on the other hand, will continue to be strong. French support, now that the Soviet position is fully clear, will probably continue strong despite the expected domestic Communist opposition.

The basis for British interest in a successful implementation of the US proposals is fully apparent. The UK will benefit immediately by the provisions of the program and ultimately by general European recovery. More particularly, in the face of a new economic crisis, the proposals provide an escape for the UK from having to choose between increased domestic austerity and the application for another US loan. Both choices are politically unpalatable, if not impossible. The UK has therefore seized upon the proposals and has been the driving force in constructive action to implement them. The clear-cut Soviet refusal to join in the program has solidified British support through its effect in uniting the Labor Party on foreign policy, particularly vis-a-vis the USSR.

French interest in the success of a European recovery program is as strong as British, but French ability to participate hinged upon the strength with which Foreign Minister Bidault resisted pressure from the USSR and from French Communists. In order to side with the UK against the USSR Bidault had to abandon the postwar French policy of preventing an East-West division of Europe. In holding to his courageous decision to support the recovery program despite Soviet opposition, Bidault was considerably strengthened by the efforts of Bevin to put the French in a position of apparent leadership at the Big Three meeting. Bidault also strengthened his own hand in future dealings with the French Communists by offering a last minute "compromise," which did not actually compromise on fundamentals. This move, in anticipation of final Soviet refusal, was designed to disarm the French Communists and to align French public opinion behind the present government.

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Soviet opposition to joint action on the basis of the Marshall proposals was based upon more than the familiar concept that Communism flourishes upon economic distress. On this occasion the USSR was caught in a real dilemma. If the USSR chose to participate in the recovery program, it would have been obliged to sacrifice the exclusive economic controls established in Eastern Europe since the war and to permit a western reorientation of Satellite economies into the broader European economy envisaged by the program. Such a course, which would jeopardize Soviet hegemony in Eastern Europe, was absolutely unacceptable. On the other hand, by refusing to participate the USSR would violate a cardinal principle of Soviet policy: to permit no combination of powers without Soviet participation with power of veto. The ultimate decision to follow this latter course, despite its potential dangers to Soviet interests, was probably made in the confident expectation that France would not dare to enter the program after Soviet refusal. This decision to gamble upon a French withdrawal gained further support from Soviet conviction that the US will suffer an economic collapse before the recovery program can become effective, and that such collapse can be hastened by Soviet non-participation.

The strength of the Soviet opposition to the European reconstruction program can best be measured by the last-minute refusals by the Satellite nations to participate. Until the final word was received from those countries, there was every evidence of their strong desire to participate. Such evidence of overpowering Soviet opposition gives warning that the USSR will utilize every opportunity to defeat the ends of the recovery program.

In the immediate future the USSR can only resort to a propaganda onslaught upon the program, because more overt action (such as a wave of Communist-led strikes in France) might weaken the Soviet position in Western Europe still further. Two premises will probably be guiding concepts in the Soviet propaganda campaign: (1) that the European states, because of their rivalries and conflicting interests, are incapable of developing an effective program; therefore, the projected program will only disappoint the exuberant hopes of the participants and thus promote further antagonism among them; and (2) that the US within a year will undergo an economic collapse that will make impossible the fulfillment

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of its proposals and may finally lead to the collapse of capitalism generally. Soviet propaganda will thus: (1) seek to increase suspicion and division among the participating states; (2) capitalize upon every snag and failure in the development of the program; (3) continue to cast suspicion upon US motives; and (4) predict the collapse of the US economy before the program can be fully effective.

In view of the certainty of vigorous Soviet counteraction, both Bevin and Bidault have shown anxiety regarding any delay in the effective implementation of the prospective program. Bevin is particularly apprehensive lest the USSR should succeed in persuading the participant European states that it is vain to hope that timely US aid will actually be forthcoming. He has predicted that, if effective US support is deferred until the late fall or winter, Europe, including France, will be "lost."

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TOP SECRET**EFFECTS OF NON-PARTICIPATION ON THE SATELLITES**

Non-participation by the Eastern European countries in the forthcoming Paris Conference on the Marshall proposals will seriously complicate the discussions and will create numerous problems for the Communist-dominated governments.

Poland, Hungary, Yugoslavia, and Rumania are in desperate need of western economic aid to reconstruct their war-ravaged economies. The economies of Czechoslovakia and Finland, while less dependent on western aid, are so inextricably tied with those of participating nations that the USSR's decision has presented them with the gravest problems. The Marshall proposal, therefore, has dramatically highlighted the basic conflict in these countries between national self-interest and subservience to the Kremlin. Non-participation will inevitably increase popular resentment and magnify the difficulties already facing the Communists in maintaining their police control over these countries.

Participation in the plan by the nations of Eastern Europe, however, could have benefited the entire European economy only if the USSR had also agreed to cooperate and to relax its economic demands upon the Satellites--particularly for Polish coal, Rumanian and Hungarian oil and food, and Yugoslav raw materials. Given continued Soviet obstructionism, therefore, western aid to the Satellites would materially increase their economic potential without producing corresponding benefits to Western Europe.

The political nature of the Soviet decision is underlined by the inescapable conclusion that the USSR had more to gain economically from participation by its Satellites than Western Europe. Increased Polish coal production, without which full recovery and greater industrialization of the Polish economy is impossible, is dependent upon the import of western machinery. Moreover, Poland's decision will seriously impair its chances to obtain a World Bank loan of \$100,000,000. The USSR, therefore, appears willing to lose an opportunity to make Poland economically strong in order to deprive Western Europe of increased quantities of Polish coal. The USSR would have similarly benefited by Rumania's participation in the plan. Increased production of Rumanian oil and food resulting from the import of western machinery, agricultural equipment, seeds, etc., is essential if Rumania is to recover economic stability; and the USSR probably would have demanded the greater share of any such increases in the form of reparations.

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One of the major problems facing the conferees at Paris will be the extent to which the countries of Western Europe can count upon the continued fulfillment by the Satellites of existing trade agreements. Czechoslovakia's trade with the West is far greater than with the USSR and its Satellites. Approximately 7,000,000 tons of Polish coal is committed to participating nations during the next year. Yugoslavia, Hungary, and Bulgaria also have fairly extensive trade relations with many of the western nations. A logical extension of the USSR's decision--now that the lines are so definitely drawn--might well be gradually to sever all economic ties between Eastern and Western Europe. Such a move would be a tremendous short-range detriment to the economy of Eastern Europe, and at the same time it would be a serious threat to the success of the Marshall proposals. Moreover, it would free the US to make a substantially larger contribution in return for economic stability in only half of Europe.

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TRENDS IN BRIEF

GENERAL

Czechoslovakia, with apparent Soviet support, plans air service to New York; it will thus provide the only through commercial air service from the US into the Balkans (page 1).

Italy's strategic position is capable of exploitation by both the Western Powers and the USSR to circumvent air restrictions imposed by either side (page 1).

WESTERN EUROPE

The arrest of certain rightist plotters in France may strengthen the Socialists in their struggle with the Communists for working-class support (page 2).

17 No drastic change in the present composition of the Ramadier Government is expected as long as the US proposal for the economic rehabilitation of Europe is under consideration. In any event, basic economic and political problems will have to be solved before France can achieve even a moderate degree of stability. These basic problems include: (1) popular unrest in the face of high prices and low wages; (2) disagreement among parties in the Government as to the means of dealing with inflation and shortages; and (3) Communist success in exploiting inter-party differences and unrest among the people.

Popular agitation for an increase in Italy's bread and pasta ration may be expected as the inadequate 1947 grain harvest comes in. This agitation will probably be exploited by the Left as a popular issue upon which to threaten the stability of De Gasperi's Government. In order to forestall this threat and to bolster the prestige of a government enjoying moral support from the US, De Gasperi may find it advisable to increase the bread and pasta ration. He can do this, however, only by drawing upon grain supplies already reserved for the present ration.

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EASTERN EUROPE

The announced Soviet intention to supply Rumania with grain represents an effort to discredit the US (page 3).

The Soviet-Rumanian railway agreement probably foreshadows a more extensive plan to integrate all Satellite communications systems under one authority (page 3).

The USSR is including more young workers in its compulsory labor system (page 4).

The Hungarian press and radio, heretofore relatively free and independent, has become completely subservient to the USSR since the Communist "coup" in Hungary. Criticism of the Communists has disappeared and news of the West is now limited to quotations from the French Communist press and the London Daily Worker. Radio Budapest is scarcely distinguishable from Radio Moscow and has adopted an exclusively pro-Soviet, anti-Western line. Because the radio is under strict governmental control and the press is kept in line by indirect methods, the US and the UK will probably have little success in reestablishing freedom of the press and radio in accordance with the terms of the Peace Treaty. Meanwhile, the Hungarian people must depend for unbiased news coverage on BBC, the Voice of America, and USIS information bulletins.

NEAR EAST-AFRICA

The Security Council may soon be called on to re-open the question of Soviet intervention in Iranian affairs which has been dormant since the withdrawal of Soviet troops from Iran in May 1946. Prime Minister Qavam has declared his intention not to submit to the Majlis (scheduled to convene on 17 July) the Soviet oil proposal to which he agreed under duress in April 1946. The Shah and the Majlis undoubtedly will support this decision. If the expected Soviet reaction assumes threatening proportions, as appears likely, Iran will probably protest to the SC.

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FAR EAST

Opposition to Japanese whaling continues strong in the Far Eastern Commission (page 6).

Loss of Manchuria by China in 1947 remains a real possibility, even though the recent large-scale Chinese Communist offensive appears to have run its course (page 6).

WESTERN HEMISPHERE

Peron's first political crisis as President of Argentina appears to be developing over a bitter public debate on economic policy (page 7).

The opening date of the Rio Conference on the Maintenance of Peace and Security of the Western Hemisphere has been set by Brazil for 15 August. Invitations have been issued to the Foreign Ministers of all the American Republics except Nicaragua (whose Government has not been recognized by other American Governments since Somoza's May coup d'etat). Prior to the conference, the Governing Board of the Pan American Union will carry out consultations among the various Governments concerning the principal points of the projected Hemisphere defense treaty. The US and Brazilian Governments agree that the conference should confine its deliberations to the terms of this treaty, which is to give permanent form to the principles incorporated in the Act of Chapultepec.

Recent indications suggest that the Latin Americans, though willing to participate in the US-sponsored standardization program, are proceeding on the tacit assumption that they will not be expected to make provision for it in their own national budgets. An influential pro-US newspaper, El Tiempo of Bogota, is insisting that the burden of any expenditures involved in Latin American participation in hemisphere arms standardization be distributed in accordance with the pattern established in World War II -- in other words, be borne by the US.

TOP SECRET**GENERAL****Czechoslovak Airline Operations to US**

Reported Czech Airline (CSA) plans for a regular transatlantic service to New York via Shannon using US Constellations would provide the only through service by any commercial airline from the US into the Balkans. (Czechoslovakia has reciprocal air agreements with the US, Eire, and most European countries, including Poland, Rumania, Hungary, and Yugoslavia.) This plan to extend Czechoslovakia's international air operations is probably favored by the USSR, despite Czechoslovakia's relative political independence. The USSR apparently still hopes the Communists will gain control of this airline. Should the Czechoslovak Communists increase their influence in the Government (which does not appear imminent), they will renew their efforts to gain control of the airline, which could be a powerful instrument of Soviet policy. If Czechoslovakia swings sharply toward the West, the USSR can be expected to obstruct Czechoslovak air operations in the Balkans.

Strategic Position of Italy in Commercial Aviation

Italy's geographic position as a natural bridge for short-range, air transport operations between the Near East or Balkans and Western Europe can be exploited by either Eastern or Western interests, or both, depending upon Italy's future political orientation.

The Western Powers, unable to obtain landing rights in the Balkans, are using Italian airfields on routes to the Near East. The Satellite States, in turn, appear to be developing a route through Italy that will obviate Allied concurrence to overflight of Austria. This is suggested by the recently disclosed Italian-Rumanian provisional agreement, which provides for the Soviet-controlled Rumanian airline TARS to fly through Milan in return for Italian landing rights at Bucharest. Thus, as Czechoslovakia provides an outlet for Satellite air traffic to northern Europe, so Italy may assume comparable importance to the Satellites as an outlet to southern Europe and the South Atlantic.

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WESTERN EUROPE

Political Implications of the Arrests in France

The highly publicized arrest of a group of Rightist plotters by Socialist Interior Minister Depreux may strengthen the Socialist position vis-a-vis the Communists in their struggle for working-class support. The Communists have based a large part of their campaign to re-enter the Government on their claim to be the only protectors of the workers' interests and on the charge that the Socialists have drifted to the Right. The exposure of these Rightist revolutionaries, who have been under constant police surveillance and whose numbers are insignificant, comes at a time when Socialist Premier Ramadier is about to ask for another vote of confidence and when the Communist threat to his regime is approaching a climax. The timing of the disclosure by the Socialists, therefore, suggests an effort to deprive the Communists of political ammunition. Moreover, the Government's action foreshadows new moves against the Communists. Several months ago, Depreux made several equally publicized arrests of collaborationists and disclosures of Rightist arms caches just prior to taking strong measures against Communist infiltration of the Paris police.

TOP SECRET**EASTERN EUROPE****Soviet Grain Shipments to Rumania**

The recent announcement that the USSR would supply 80,000 tons of cereals to famine-stricken Rumania is a flagrant exploitation of Rumania's food shortage for political purposes and is designed primarily to discredit the US. The public announcement emphasized that the USSR had agreed to provide all that Rumania had asked for until the next harvest, and that the Soviet price was far below that being asked for US grain. In actual fact, the USSR is making available little more than it has demanded of Rumania in the past few months for reparations and occupation troops. Moreover, 80,000 tons will probably not meet more than 25% of Rumania's needs until the harvest, which itself is expected to be only 50% of pre-war.

In addition to providing only slight immediate relief, the Soviet action in no way solves the basic causes of Rumania's critical agricultural situation. The small quantity of food involved and the timing of the transaction indicate, therefore, that the USSR is interested primarily in nullifying the political effect of US grain shipments to Rumania and in attempting to counteract the Marshall proposals by showing that the USSR "takes care of its own."

Soviet Plan for Integration of Satellite Transportation

The recently announced Soviet-Rumanian railway agreement probably represents one element of a far more extensive plan. There are indications that the USSR intends shortly to integrate all Satellite communications systems under one central authority. A multilateral Satellite air-transport agreement has been discussed, and it is clear that strict Soviet control of all Satellite air policy has been consistently exercised. While details are lacking on Soviet intentions with regard to merchant shipping and inland waterways, some features of the plan for railway development are now available.

The USSR is insisting that the existing road beds of key rail lines be widened so that transformation of the actual trackage to the wider Soviet gauge can be made with "incredible" speed if required. For the present, however, the USSR apparently prefers the narrower European gauge for Satellite lines because it permits the use of European rolling stock and thus

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prevents a drain on the seriously depleted Soviet domestic stocks of wider-gauge equipment. For this reason, numerous Satellite rail lines, which the USSR had widened immediately after Soviet occupation, have now been changed back to standard gauge.

Certain planned construction of new lines also has little economic justification but has strategic significance. For example, a new line west of Bucharest, to be completed by fall, merely shortens an existing line now operating at less than capacity. Because the paucity of direct connections between the Soviet and Balkan rail systems is a notable weakness of the Soviet-Satellite rail net, it may be presumed that new construction to remedy this defect is being planned.

An incidental benefit of this planned activity is the propaganda value that can be derived from it as an indication that the USSR is contributing to the economic development of "friendly" countries. By such means the USSR may seek to counter Eastern European disappointment at Soviet rejection of the Marshall proposals.

Intensified Training of Soviet Youth

The prewar vocational training and compulsory labor program for Soviet youth recently has been amended to provide additional trained manpower for Soviet industry and to include more young workers in the compulsory labor system.

The 1940 law, authorizing the annual draft of approximately 900,000 Soviet young people into vocational, railway, and factory-plant schools, has been amended: (1) to extend the prewar age limits of 14-17 years for boys to 14-19 years; and (2) to continue the wartime measure permitting the mobilization of girls 15-18 years of age. Reasons for the amendment are believed to be: (1) the critical manpower shortage in Soviet industry, particularly transport, which otherwise cannot be overcome without lowering the strength of the Soviet Armed Forces; (2) the desire to train those young people who could not be trained during the war because of insufficient facilities; and (3) the need for well-trained personnel to expand present Soviet industrial enterprise and to maintain a high industrial level should military mobilization of the USSR become necessary.

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While the official publicity accompanying the program's announcement emphasizes its "educational" aspects, the actual effect of the plan is vastly to increase the number of Soviet workers completely under government compulsion. Youths conscripted under the program, for example, are compelled after the completion of their "training" to work wherever directed for a minimum of four years.

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TOP SECRET**FAR EAST****Opposition in the FEC to Japanese Whaling**

The problem of Japanese whaling in the Antarctic represents one of the very few questions on which the Far Eastern Commission has been unable to reach agreement. On 9 June, the US informed representatives of Norway, Australia, New Zealand, and the UK that, despite their protests, SCAP would be authorized to send a second Japanese-manned whaling expedition to the Antarctic. The intensely bitter opposition led by Australia to this relatively unimportant matter is caused partly by a fear that a precedent is being established for continued Japanese Antarctic whaling. Not only do all four Governments regard this whaling as a commercial threat, but Australia and New Zealand consider it a dangerous security threat. However, the US maintains that this expedition, like the one last winter, is a purely temporary expedient designed to provide foods and oils vital to Japan which the US would otherwise have to supply.

Australia, New Zealand, and the UK carried their protest to the FEC in the form of a paper, introduced by the UK, which would prohibit all open-sea whaling by the Japanese. All members of the FEC voiced their support of the proposal, except the US which refused to alter its position. Rather than force a US veto, the UK suggested action be postponed.

Chinese Prospects in Manchuria

Loss of Manchuria before the end of 1947 remains a real possibility, even though the recent large-scale Chinese Communist offensive appears to have run its course. During that offensive, the potential of Chinese Communist forces (in terms of manpower, munitions, food, troop morale, and popular support) is believed to have increased to a large degree at the expense of the Nationalist potential. Any large-scale movement of Nationalist replacements and supplies from North China is considered unlikely. The Nationalist position in North China is also precarious, as a result of persistent Communist attacks on key rail lines and ports and apparent shortages of Nationalist manpower and equipment. There is, thus far, no sign that the Central Government has any definite intentions of rectifying the fundamental weaknesses of the Nationalist military and civil administration in Manchuria -- an administration which has played into Communist hands by its bungling military tactics and by its "carpet-bagger" attempts to dominate and exploit the native Manchurian population.

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WESTERN HEMISPHERE

Imminent Political Crisis in Argentina

Peron's first political crisis as President of Argentina may be taking shape. The President of Argentina's nationalized Central Bank, Miguel Miranda (who is also Honorary President of the Argentine Trade Promotion Institute), has become the central figure in a bitter, public debate about Argentine economic policy. Miranda, who for many Argentines symbolizes-- even more than President Peron himself -- the marked trend toward Government control of business and trade, is under attack not only by elements traditionally opposed to the present Government but also by the so-called "Nationalist" elements within the Peron coalition. The "Nationalists," embarrassed but by no means put to rout by the recent removal of the Nationalist General Velazco as Chief of Police in Buenos Aires, accuse Miranda of mismanagement and graft. Should the debate continue in its present form, it will force Peron to choose between the contending factions and thus precipitate the first political crisis since his accession to the presidency.

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SPECIAL ARTICLES

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TOP SECRET**REVIEW OF THE SITUATION IN INDIA**

The division of India, in accordance with the Viceroy's plan of 3 June 1947, has thus far proceeded without undue disturbance, but several factors of immediate danger to the peace of India still exist.

In essence, the new plan provides merely that those portions of India, which are unwilling to participate in the Constituent Assembly created under the earlier plan (of 16 May 1946), may establish a Constituent Assembly of their own with similar powers, and hence that authority will be transferred by the UK to two political entities--the Union of India (or Hindustan) and Pakistan--rather than to a single union. Moreover, in order that the transfer of power may take place within the next few months, rather than in June 1948 as previously intended, the new plan provides that Hindustan and Pakistan shall initially have dominion status, but it emphasizes the right of either to declare itself a free and independent nation at any time.

The procedure whereby the various areas may indicate their preference for inclusion in Hindustan or Pakistan is set forth in detail in the plan. Pursuant to the plan, the Legislative Assemblies in the Punjab and in Bengal have determined that these two provinces shall be divided into Moslem and Hindu areas. Thus, approximately three-fifths of the Punjab, consisting of the northern and western portions of the province, will become part of Pakistan, with the remainder included in Hindustan; similarly, approximately two-thirds of Bengal, consisting of all but the southwestern portion of the province, will become part of Pakistan.

While the division is equitable on the basis of the principle of self-determination, the economic weakness of the Pakistan area has been increased through loss of the great port of Calcutta and the more fertile section of the Punjab. Unfortunately, too, it has been impossible to partition the Punjab in a manner which does not leave in each new dominion about half of the four million Sikhs residing in the province. The Sikhs have peacefully accepted the decision, because the area most sacred to them remains in Hindustan and because they realize that no other manner of partition is feasible. They have, however, commenced agitation for an autonomous Sikh state (comprising most of the eastern Punjab) within Hindustan and have proposed a transfer of Sikhs from those areas to be included in Pakistan. While it is not expected that agitation for an autonomous state will become an immediate source of trouble, this dissatisfaction may later cause serious difficulties which can involve both Pakistan and Hindustan.

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Of the remaining areas originally claimed by the Moslem League for Pakistan, Sind and Baluchistan have, as anticipated, formally declared their preference for Pakistan. Assam, with the exception of the predominantly Moslem district of Sylhet, adjacent to eastern Bengal, was allotted to Hindustan, in accordance with the wishes of the vast majority of its inhabitants. A referendum is to be taken in Sylhet to permit its incorporation into Pakistan if, as is expected, that accords with the wishes of its inhabitants. A referendum will also be held in the North West Frontier Province.

The latter province still constitutes one of the danger spots in India. Despite a 92% Moslem population, it has at present a Congress Party government. However, developments generally throughout India and strong propagandizing by League sympathizers have sufficiently increased Moslem League sentiment within the province to make it apparent that the members of the present Legislative Assembly no longer represent the feelings of the majority of the population. Realizing that the pro-Congress element cannot be successful in the referendum, Khan Abdul Ghaffar Khan (provincial Congress Party leader) has announced that his party will boycott it and will fight for the creation of an independent "Pathanistan." With a lack of consistency common in India, Gandhi and Nehru--who in all other instances have denounced any tendency toward the Balkanization of India--support this stand. No doubt to the consternation of Gandhi and Nehru, Afghanistan has also strongly indicated support of the free Pathanistan movement. It has maintained in a note to the British Foreign Office that the inhabitants of the province are Afghans, that the province was annexed by the British upon the "dismemberment" of Afghanistan following the British-Afghan wars, and that the population of the province which has had only an artificial connection with India proper should be allowed to choose independence or return to "the Motherland of Afghanistan."

As the Congress strongly desires that India will eventually be reunited, Congress support for the creation of a free Pathanistan will undoubtedly diminish in view of Afghanistan's attitude and the possibly receptive attitude of the Pathans and other tribesmen toward incorporation into Afghanistan. While considerable bloodshed may occur in the near future within the province, the disorders will probably be local, and adherence of the province to Pakistan appears certain. At some later time, serious trouble may be expected from the North West Frontier tribesmen.

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Further disorders and bloodshed are also expected in Bengal, pending demarcation of the new boundaries and until the new governments become operative. These disorders, however, are likewise expected to remain localized.

The position of certain of the Princely States constitutes the remaining source of immediate and serious dissension. The Congress Party holds that, at the termination of British paramountcy, each state must join one of the two dominions; the Moslem League, on the other hand, maintains that each state is free to do as it likes, even to remain independent if it so chooses. While indications are that most of the states will join Hindustan or Pakistan, certain of them (notably Hyderabad and Travancore) have refused to join either dominion.

From a legalistic point of view, the claim of any state to declare itself independent would appear entirely justifiable. The British, while deploring Hyderabad's and Travancore's attitude, maintain only that no state may remain within the Empire except by confederation with either of the two dominions. From the British point of view, the matter is one which must be resolved by the states' governments and the people of India. If Hyderabad, Travancore, and other states adopt an adamant attitude, the possibility of strife in the immediate future again arises.

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SINO-SOVIET RELATIONS

Faced with a critical military situation in Manchuria and North China and with an impending political-economic crisis of unprecedented severity, China's Central Government last month dropped all pretense of treating the Chinese Communist problem as a purely domestic issue and took a firm stand against Soviet encroachments upon Chinese sovereignty.

Key Chinese governmental and military officials have recently charged that Soviet aid to Chinese Communists and Outer Mongolian forces and Soviet tactics regarding Dairen had brought on China's present plight, and pictured China as the scene of an international crisis that might lead to a third World War. On 25 June, the Chinese Government handed to the USSR its strongest note to date on the Dairen-Port Arthur issue, reasserting its right to dispatch troops to that area. (It is believed that these emphatic Chinese actions, which appear to have been taken in a spirit of defeatism approaching desperation, were motivated mainly by the desire to shock the US Government and people into extending emergency financial and military assistance.)

There are now certain indications that the USSR, reacting to the new Chinese attitude and probably taking due note of recent US Government announcements that surplus ammunition would be sold to China and that specific Chinese projects would receive EximBank consideration, may have decided to stiffen its own attitude toward China, or at least to convey that impression to China and the US as part of a "war of nerves":

(1) During the first session of the UN Economic Commission for Asia and the Far East (in Shanghai, 16-25 June), the Soviet delegation was noticeably cool toward the Chinese, consistently sided with the Indian delegation on controversial subjects, and attempted to block election of a Chinese as ECAFE chairman;

(2) During the period 14-27 June, local Soviet officials in Shanghai reportedly expressed the opinion that: (a) the recent recall of Soviet Ambassador Petrov from Nanking to Moscow was part of "Moscow's routine of changing officials when changing policy," (b) the new Soviet "policy" would be to counteract that of China and the US, with a possible "showdown" to indicate Soviet determination not to relinquish its position in China, Korea, and Japan, and (c) they themselves would subsequently be recalled as a result of the change in Soviet attitude. The officials further asserted that the chairman of the Soviet Residents Association in Shanghai was to be attached to a newly formed special commission in Khabarovsk (north of Vladivostok

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in Siberia) "to handle the mass exodus of Soviet citizens from China."

(3) On 30 June, the Soviet Consulate General in Shanghai announced that a new Soviet decree provided for the repatriation, with guarantees of jobs, homes and food supplies, of 3,000 Soviet families in China proper, believed to be the bulk of the Soviet non-official community in China outside of Manchuria.

Soviet actions of the above type are open to wide interpretation, as the USSR itself realizes. However, it is apparent that such measures, which serve to exert pressure on China, serve also as preparation for a possible breakdown of Sino-Soviet relations.

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